

Digitized by the Internet Archive  
in 2023 with funding from  
University of Toronto

<https://archive.org/details/39090621100193>







(30)

PUBLIC FINANCE IN METROPOLITAN TORONTO

A Study for The Royal Commission on  
Metropolitan Toronto

by

HARRY M. KITCHEN

July, 1977

The conclusions contained in this study  
do not necessarily constitute findings  
of The Royal Commission on Metropolitan  
Toronto.





## PUBLIC FINANCE IN METROPOLITAN TORONTO

This report, prepared for the Royal Commission on Metropolitan Toronto, analyzes trends with respect to the expenditures and revenues of the Metro system and identifies those factors contributing to recent increases in expenditure levels. It goes on to examine both existing and alternative sources of revenue with a view to assessing their potential for generating the funds needed to cover expenditures both now and in the future.

The author acknowledges with thanks the generous assistance of the staff of the Royal Commission on Metropolitan Toronto along with that of a number of other municipal and provincial civil servants all of whom contributed to the final product. A special thank you is also extended to Carol Sherman for typing numerous drafts and to Valerie Clements and Bob Doran for their diligent and invaluable research assistance.





# TABLE OF CONTENTS

List of Tables .....	v
List of Figures .....	ix
List of Appendices .....	xi

## PART I - INTRODUCTION

Chapter 1	A General Setting .....	1
-----------	-------------------------	---

## PART II - EXPENDITURE ANALYSIS

Chapter 2	Introduction to the Expenditure Analysis .....	10
Chapter 3	Where Do Local Governments Spend Their Money? .....	12
A)	Comparative Analysis of Total Current Expenditures .....	12
B)	Comparative Analysis of Per Household Current Expenditures by the Area Municipalities and Metropolitan Toronto for the Major Functions .....	15
i)	General Government .....	18
ii)	Protection .....	20
iii)	Public Works .....	20
iv)	Sanitation .....	23
v)	Health, Social and Family Services .....	23
vi)	Recreation and Community Services .....	26
vii)	Community Planning .....	28
viii)	Financial Expenses .....	28
ix)	Expenditure for Education .....	28
C)	An Analysis of Total Current Expenditures - An Alternative Overview .....	31
D)	Comparative Analysis of Total Capital Expenditures .....	35
E)	Comparative Analysis of Total Per Household Capital Expenditures for Metropolitan Toronto and the Area Municipalities from 1968 to 1974 .....	36

Chapter 4	Factors Influencing Expenditure Increases .....	40
A)	Impact of Inflation on Per Capita Current Expenditures .....	40
B)	Expenditure Performance .....	41
C)	Impact of Wages on Current Expenditure .....	51
D)	Impact of Interest Rates on Expenditure .....	55
Chapter 5	Future Expenditures .....	59
A)	Elasticity of Local Spending .....	59
B)	Projected Current Expenditures for 1980 .....	59
C)	Projected Current Dollar Expenditures.	65
D)	Projected Capital Expenditures .....	68
Chapter 6	Financial Management .....	72
i)	The Budgetary Process.....	72
ii)	Intergovernmental Problems .....	76
iii)	Boards, Commissions and Special Purpose Bodies .....	77
Chapter 7	Summary of Expenditure Analysis .....	79

### PART III - REVENUE ANALYSIS

Chapter 8	Introduction to the Revenue Analysis..	81
Chapter 9	Where Does the Revenue Come From? ....	82
A)	Analysis of Revenue, 1968 to 1974 - An Overview .....	82
B)	Analysis of Revenue, 1968 to 1974 - Including the Provincial Grant for Education .....	87
C)	Analysis of the Per Household Tax Levy .....	87



D)	A Comparative Analysis of Per Household Taxation for the Area Municipalities 1968-1974 .....	91
E)	Analysis of Grants .....	98
Chapter 10	An Evaluation of Existing Revenue Sources .....	109
i)	Grants .....	109
ii)	Property Tax .....	110
Chapter 11	An Evaluation of Alternative Revenue Sources .....	119
i)	Municipal Income Tax .....	122
ii)	Municipal Sales Tax .....	129
iii)	Municipal Automobile License Fees and Road User Fees .....	141
iv)	Municipal Liquor Sales Tax .....	148
v)	Municipal Hotel Room Tax .....	155
vi)	Municipal Amusement Tax .....	157
vii)	Municipal Land Speculation and Land Transfer Tax .....	160
viii)	Municipal Lotteries .....	164
Chapter 12	Summary of Revenue Analysis .....	167

#### PART IV - FISCAL IMBALANCE

Chapter 13	Introduction to Fiscal Imbalance .....	170
Chapter 14	Fiscal Imbalance in Metropolitan Toronto .....	171
Chapter 15	Summary of Fiscal Imbalance .....	177

## PART V - CONCLUSION

Chapter 16	Conclusion .....	179
i)	Property Tax .....	180
ii)	Alternative Revenue Sources .....	190
iii)	Expenditures .....	191
Appendices .....		196
Bibliography .....		240



LIST OF TABLES

1-1	Relationship of Metro's Per Household Expenditures to those of Other Ontario Regional Municipalities and those of the Total Local Sector in Ontario for Selected Years .....	3
1-2	Relationship of Metro's Per Household Revenue Yield to that of the Regions and the Total Local Sector for Selected Revenue Categories and for Selected Years ...	6
1-3	Percentage of Total Revenue Coming from Total Municipal Taxation and Provincial Assistance for Selected Years .....	7
1-4	Relationship of Metro's Per Household Property Tax to that of the Regions and the Total Local Sector for Selected Years ...	8
1-5	Percentage of Total Expenditures Financed by Residential and Farm Property Taxation ...	8
3-1	Metropolitan Toronto School Board Expenditures .....	32
3-2	Percentage Increase (Decrease) in Total Per Household Capital Expenditure by Major Function .....	38
3-3	Percentage Increase (Decrease) in Total Per Household Capital Expenditures by Municipality .....	39
4-1	Impact of Inflation on Per Household Expenditure in the Municipalities .....	42
4-2	Impact of Inflation on Per Household Expenditure by Function .....	43
4-3	Consumer Price Index for Toronto .....	44
4-4	Percentage of Expenditure Increases in the Various Functions and Municipalities Attributable to Inflation, Volume of Service and Level of Service, 1968-1974 .....	47
4-5	Percentage Increase in Employees and Wage Rates or Salaries for Unionized Employees from 1970 to 1974 .....	53
4-6	Selected Debt Information .....	55

4-7	Debt Service on Funded Debt for the Metropolitan Corporation, Metropolitan Toronto School Board, Area Municipalities, and Municipal Utilities .....	57
4-8	Interest Rates Paid on Direct Debenture Debt of the Metropolitan Corporation by Year of Issuance of Debt .....	58
5-1	Projected Percentage Increase in Expenditure from 1974 to 1980 by Function and by Municipality for Three Assumed Rates of Inflation .....	67
5-2	Projected Gross Expenditures on Capital Works Projects 1976 to 1980 .....	69
5-3	Estimated Percentage of Metro System Capital Expenditures Absorbed by Each Function for Each Year and for the Total of Five Years ...	70
5-4	Financing of Estimated Expenditures on Capital Works Programmes for the Metro System (including education) .....	71
9-1	Percentage Increase in Revenues from 1968 to 1974 .....	84
9-2	Percentage of Revenue Obtained from All Revenue Sources for the Area Municipalities for 1968 and 1974 .....	86
9-3	Per Household Total Tax Levy in the Area Municipalities and the Metro System 1968-1974 .....	89
9-4	Per Cent of Total Tax Levy Obtained from i) Residential and ii) Commercial/Industrial and Business Taxation .....	92
9-5	Per Household Residential Property Tax Levy 1968-1974 .....	93
9-6	Per Household Commercial/Industrial and Business Tax Levy, 1968-1974 .....	94
9-7	The Tax Levy by Metro (alone) on the Area Municipalities .....	96
9-8	Grant Revenue of the Metro System .....	99
9-9	Grants to the Area Municipalities 1968 and 1974 .....	101

10-1	Property Tax Burden on Selected Households in the City of Toronto .....	116
11-1	Estimated Revenue Yield in Metropolitan Toronto from a 1% Flat Rate Tax on Adjusted Gross Assessed Income for 1968 to 1973 .....	124
11-2	Estimates of Personal Income Tax Revenue Raised in Metropolitan Toronto .....	127
11-3	Surcharge on Income which Would be Necessary to Raise the Same Amount of Revenue as a 1% Flat Rate Tax on Gross Adjusted Income ...	127
11-4	Flat Rate Tax on Net Income Necessary to Yield Revenue Equal to the Flat Rate Tax on Gross Income .....	128
11-5	Projected Estimate of Revenue Yield from a 1% Flat Rate Municipal Income Tax in Metro Toronto for 1974 to 1980 .....	128
11-6	Rates of Increase in Provincial and Federal Income Taxes Collected in Ontario and in Metropolitan Toronto 1967 to 1973 .....	130
11-7	Metropolitan Toronto Tax Revenue .....	130
11-8	Sales Tax Revenue for Ontario .....	133
11-9	Estimated Revenue Yield for Metropolitan Toronto from a 1% General Municipal Sales Tax for 1968 to 1974 .....	134
11-10	Projected Population Estimates for Metropolitan Toronto .....	137
11-11	Estimated Revenue Yield of Municipal Sales Tax in Metro Based on a 1% Rate and that Expenditures in Metro will be 5% Higher than the Average of the Rest of Ontario .....	139
11-12	Estimated Revenue Yield of Municipal Sales Tax in Metro Based on a 1% Rate and that Expenditures in Metro will be 10% Higher than the Average of the Rest of Ontario .....	140
11-13	Estimated Revenue from Registration Fee Surcharges for Metropolitan Toronto .....	144
11-14	Estimated Revenue from a 1¢/gal. Surcharge in Metropolitan Toronto .....	146
11-15	Estimated Revenue for a One Per Cent Municipal Surtax on Liquor Sales in Metropolitan Toronto, 1968 to 1974 .....	152



11-16	Projected Revenue for a One Per Cent Municipal Surtax on Liquor Sales in Metropolitan Toronto, 1975-1980 .....	154
11-17	Estimated Revenue from a Five Per Cent Levy on Hotel Room Prices in Metropolitan Toronto .....	158
12-1	Estimated Yield of Alternative Revenue Sources for the Municipality of Metropolitan Toronto (alone) for Three Selected Years ....	169
14-1	Fiscal Imbalance 1968 to 1974 .....	173
14-2	Fiscal Imbalance as Per Cent of Expenditures 1968-1974 .....	175
14-3	A Comparison of the Per Household Fiscal Imbalance and Per Household Total Grants for 1968, 1971, 1974 .....	176
16-1	Average Housing Prices in Metro .....	181
16-2	Average Residential and Farm Assessment Per Household in Metro .....	182
16-3	Estimated Residential Property Assessment in Metro .....	183
16-4	Estimated Property Tax Revenue Per Household in Metro .....	185
16-5	Comparison of Revenue Yield from a Tax Rate of One Mill .....	186
16-6	Additional Total Residential Property Tax Yield in the Metro System .....	187
16-7	A Comparison of Per Household Disposable Income and Per Household Residential Property Taxes in the Metro System, 1969 to 1974 .....	189
16-8	Percentage of Metro System's Own Revenue Shortfall (Fiscal Imbalance) which Could have been Offset by Alternative Tax Sources .	192
16-9	Percentage of Metro System's Own Revenue Shortfall which Could have been Offset by Alternative Tax Sources .....	193
16-10	Percentage of Metro System's Fiscal Imbalance Removed by the Elimination of Certain Expenditure Responsibilities .....	195

LIST OF FIGURES

3-1	Current Expenditures by Function as a Percentage of Total Expenditure in Metro System (excluding provincial grant for education).....	13
3-2	Total Per Household Current Expenditures for the Years 1968-1974 .....	17
3-3	Per Household Expenditures for General Government for the Years 1968-1974 .....	19
3-4	Per Household Expenditures for Protection for the Years 1968-1974 .....	21
3-5	Per Household Expenditures for Public Works for the Years 1968-1974 .....	22
3-6	Per Household Expenditures for Sanitation for the Years 1968-1974 .....	24
3-7	Per Household Expenditures for Health, Social and Family Services for the Years 1968-1974 .....	25
3-8	Per Household Expenditures for Recreation and Community Services for the Years 1968-1974 .....	27
3-9	Per Household Expenditures for Community Planning for the Years 1968-1974 .....	29
3-10	Per Household Expenditures for Financial Expenses for the Years 1968-1974 .....	29
3-11	Metro's Expenditure for Education for the Years 1968-1974 .....	30
3-12	Current Expenditures by Function as a Percentage of Total Expenditure in Metro System (including provincial grant for education) .....	33
3-13	Metro's Expenditure for Education (including provincial grants) .....	34
3-14	Capital Expenditures by Function as a Percentage of Total Capital Expenditures Including Education .....	37
5-1	Total Expenditure Projected for 1980 in Constant Dollars .....	62

5-2	Total Expenditure by Function, for the Metro System, Projected for 1980 in Constant Dollars .....	63
5-3	Education - Projected Expenditure for 1980 in Constant Dollars .....	66
9-1	Percentage of Revenue Obtained from Each Revenue Source for the Metro System (excluding the provincial grant for education) .....	83
9-2	Percentage of Revenue Obtained from Each Revenue Source for the Metro System (including provincial grant for education)..	88
9-3	Per Household Total Tax Levy in the Area Municipalities and the Metro System 1968-1974 .....	90
9-4	Per Household Grants in the Metro System 1968-1974 .....	100
9-5	Per Household Total Grants for the Metro System and the Area Municipalities .....	103
9-6	Per Household Grants-in-Lieu of Taxes for the Area Municipalities 1968-1974 .....	104
9-7	Per Household Unconditional Grants for the Area Municipalities 1968-1974 .....	106
9-8	Per Household Conditional Grants for the Area Municipalities 1968-1974 .....	107



LIST OF APPENDICES

A	Per Household Expenditures by Selected Functions .....	197
B	Total Expenditures \$(000) for 1968 and 1974 .....	200
C	Percentage Change in Per Capita Expenditure by Function (1968-1974) .....	205
D	Percentage Increase (or Decrease) in Per Household Current Expenditures by Function for Metro and the Area Municipalities from 1968 to 1974 .....	206
E	Capital Expenditures by Function - Total, Per Household, and as a Percentage of Total Capital Expenditures .....	207
F	Total Expenditure by Function for Each Municipality in Constant Dollars .....	209
G	Calculation of the Disaggregation of Total Percentage Increases in Expenditures into Inflation, Volume of Service, and Level of Service .....	213
H	Projected Percentage Increase (or Decrease) in Expenditures by Function for Each Municipality in Constant Dollars for 1980 .....	214
I	Expenditure Projections for Each Function by Municipality (constant dollars) .....	217
J	Current Dollar Projections for 1980 - Assuming a 5, 10 or 15 Per Cent Inflation Rate .....	227
K	Revenues by Source and Municipality 1968-1974 .....	229
L	Revenue by Source for the Metro System Including the Provincial Grant for Education 1968-1974 .....	233
M	Residential and Farm Tax Levies in the Area Municipalities 1968-1974 .....	234
N	Commercial/Industrial and Business Tax Levies in the Area Municipalities 1968-1974 .....	236
O	Total Grants to Metro Alone and the Area Municipalities 1968 to 1974 .....	238



PART I

I N T R O D U C T I O N





## CHAPTER I

### A GENERAL SETTING

There is a growing concern about the public finances of Metropolitan Toronto.<sup>1</sup> The expenditures of the Metropolitan system<sup>2</sup> appear to have increased at a greater rate than have its own revenues. In fact own source revenues have experienced a reasonably slow rate of growth. In addition, the growth in expenditures in certain areas has far outstripped that in others. The fact that there is now some question as to how much municipalities can depend upon grants from the provincial government to help finance increased municipal spending in the future has hastened the need for investigating these trends. Finally, the rate of growth in the expenditures of the Metro system alone warrants some examination of the financial management of local government to determine whether it is organized in such a way as to provide for optimum efficiency in the provision of public goods and services at the municipal level. This report has been commissioned to investigate these and other related questions.

In order to assess the system of public finance in Metropolitan Toronto, some context was needed. It was therefore decided to examine Metro's financial characteristics in comparison with those of other regions, the remainder of the province and those of all local governments in Ontario for the years 1968, 1971 and 1974.

A quick perusal of per household expenditure figures in Appendix A provides a basis for some comparisons between the Metro system and other municipal governments

---

<sup>1</sup>For a summary of briefs presented to The Royal Commission and the various concerns, see: The Royal Commission on Metropolitan Toronto, Update, December 1975, pp. 10-12 and Update, June 1976, pp. 9-11.

<sup>2</sup>"Metro system" means the two levels of government plus the various special purpose bodies, while "Metro alone" means the Corporation of the Municipality of Metropolitan Toronto, its attendant special purpose bodies, and both local and Metro boards of education. In this chapter, Metro refers to the Metro system.

in the province of Ontario.<sup>3</sup> Although per household expenditures in Metro were above the provincial average in all years (in 1968, Metro's expenditures were 1.37 times greater than the average of all local governments; in 1974, they were 1.26 times greater), the rate of growth was less. In fact, from 1968 to 1974 Metro's expenditures (per household) grew by 5.5 per cent per year, while those of the total local sector in Ontario grew by 7.5 per cent annually. From 1971 to 1974, total per household expenditures in all regional municipalities, other than Metro, increased by 3.2 per cent per year.

An examination of the percentage which each expenditure function absorbs of the total budgetary expenditures for each category of municipalities reveals that specific functions tend to absorb roughly the same proportion of local expenditures in each municipality. For example, in 1974 although Metro's per household expenditures on health were 10 per cent higher than those of the other regions, in both cases they absorbed 11.7 per cent of their respective budgets. While many similarities can be found, there are some exceptions; expenditures for general government and public works represented smaller percentages of the municipal budgets in Metro than in other municipalities. On the other hand, expenditures for education (excluding provincial grants) represented a greater proportion of the total expenditures of the Metro system than of the other municipalities.

Table 1-1 illustrates the factor by which Metro expenditures either exceeded or fell short of those of the regions or the rest of the province (i.e. the total local sector). For example, in 1971 Metro's expenditures for protection exceeded those of other Ontario regional municipalities by a factor of 1.29. In addition, one can observe that with the exception of expenditures on general government in 1971 and on general government and sanitation in 1974, Metro's per household expenditures exceeded those of the regions for all other functions in both years as did its total per household expenditures. Of even greater significance is the fact that Metro's per household expenditures exceeded those of the total municipal sector in Ontario for all functions in all years with the exception of general government in 1974.

---

<sup>3</sup>These expenditure figures exclude the provincial grant for education. For an explanation of this approach, see footnote 1 of chapter 3, p.12. For the rationale behind the use of per household rather than per capita expenditures, see footnote 11 of chapter 3, p.15.

Table 1-1

Relationship of Metro's Per Household Expenditures  
to Those of Other Ontario Regional Municipalities and  
Those of the Total Local Sector in Ontario for Selected Years

Function (1)	Other Ontario Metro/Regional Municipalities		Metro/Total Local Sector		
	1971 (2)	1974 (3)	1968 (4)	1971 (5)	1974 (6)
General Government	.90	.53	1.21	1.07	.65
Protection	1.29	1.34	1.46	1.41	1.38
Public Works	1.00	1.09	1.28	1.26	1.06
Sanitation	1.26	.99	1.48	1.30	1.13
Health, etc.	1.10	1.21	1.88	1.68	1.32
Recreation and Community	1.66	1.25	1.63	1.57	1.37
Education	1.24	1.42	1.40	1.39	1.41
TOTAL	1.16	1.20	1.37	1.33	1.26

Source: Calculated from Appendix A. Provincial Grants for Education are excluded.

Note: There are no figures for 1968 in the Metro/Other Ontario Regional Municipalities comparison because there were no regional municipalities, other than Metro, in existence in 1968.

Table 1-1 shows the rate of increase in the expenditures of the Metro system, of the other Ontario regional municipalities and of the total local sector. If the factor appearing after a specific expenditure function in column 3 exceeds that of column 2, Metro's expenditures on that function have increased more rapidly than those of the other regions as a group. Similar comparisons can be made between Metro and the total local sector by referring to columns 4, 5 and 6. With the exception of general government, sanitation, recreation and community, Metro's expenditures on all other functions and in total increased more quickly than those in the other regions between 1971 and 1974. When Metro's expenditures are compared with the average of the total local sector between 1968 and 1974, a different pattern emerges. Education is the only expenditure function with a faster growth rate in Metro. Even here, the rate of increase is only marginally greater.

While Metro's per household expenditures have been higher than those in other areas, there is no clear explanation for this. Some have argued that the rate of inflation has been more severe in Metro than elsewhere in the province, necessitating greater increases in municipal expenditures to maintain an established level of service. Others have argued that incomes have traditionally been higher in Metro<sup>4</sup> than in the rest of the province and that this has caused people to demand a higher level of service.<sup>5</sup>

---

4 Personal Income Per Household: 1970-75

<u>Averages</u>	<u>1970</u>	<u>1975 (Est.)</u>	<u>Percent Change 1970/1975</u>
Regions	9,900	15,800	60
Metro	10,900	18,500	70
Rest of Province	7,200	12,500	74
Total Local Sector	9,000	15,200	69

---

Source: Regional Government in Perspective: A Financial Review, Ministry of Treasury, Economics and Intergovernmental Affairs, Toronto, Table A6, p. 47.

<sup>5</sup>For evidence indicating that at least some levels of service tend to be higher in Metro, see Ministry of Treasury, Economics and Intergovernmental Affairs, Regional Government in Perspective: A Financial Review, pp. 21-22.



Table 1-2 indicates that per household total revenue in the Metro system was substantially higher than that of other regions in 1971 and 1974 (1.18 times higher in 1971 and 1.23 times higher in 1974) and the average of the total local sector (1.40 times greater in 1968, 1.36 times greater in 1971 and 1.29 times greater in 1974). As in the case of our earlier comparison of expenditures, per household taxation, provincial assistance and total revenue all increased at a faster rate in Metro than in the regions from 1971 to 1974. In contrast, the average of all local governments for each of these revenue categories increased faster than Metro's from 1968 to 1974. In reviewing the percentage of total revenue which comes from municipal taxation and provincial assistance (Table 1-3), it is interesting to note that municipal taxation accounted for a declining percentage of total revenue for Metro, the regions and the total local sector. The importance of provincial assistance increased over the same time period. Provincial assistance, as a percentage of total revenue, doubled for the total of all municipal governments, whereas for Metro, the increase was slightly less at 80 per cent.

The discussion thus far has dealt with total revenue from municipal taxation. This includes residential/farm and commercial/industrial property taxation, business taxes and special charges such as local improvement charges, garbage collection charges and sewer surcharges on the water bill and drainage rate.

The following is a brief comparison of residential property taxation only in the different categories of municipalities. Table 1-4 shows that per household residential property taxes were higher in Metro than they were in either the other regional municipalities in Ontario or the total local sector in all the years indicated. Table 1-5 indicates that residential property taxes have been declining in importance as a means of financing municipal expenditures. From 1968 to 1974, the share of total municipal expenditures in Metro financed from residential property taxation dropped from 45 per cent to 34 per cent.

To summarize from this analysis: First, per household expenditures in Metro were higher than those in the other regions or the average of the total of all municipalities in the province for each of the years studied. Second, Metro's per household expenditures increased at a faster rate than those in the other regions from 1971 to 1974 but at a slower rate than the total of the local sector from 1968 to 1974. Third, per household municipal revenues were higher in Metro than in the other areas of comparison. Fourth, per household residential

Table 1-2

Relationship of Metro's Per Household Revenue Yield to That of the Regions and the Total Local Sector for Selected Revenue Categories and for Selected Years

	Metro/Regions		Metro/Total Local Sector		
	<u>1971</u>	<u>1974</u>	<u>1968</u>	<u>1971</u>	<u>1974</u>
Total Taxation <sup>1</sup>	1.35	1.39	1.44	1.39	1.41
Provincial Assistance <sup>2</sup>	.77	.86	1.09	1.15	1.06
Total Revenue <sup>3</sup>	1.18	1.23	1.40	1.36	1.29

<sup>1</sup>Total taxation includes residential/farm and commercial/industrial property taxation, business taxes and special charges such as local improvement charges, garbage collection charges, and sewer surcharges on the water bill and drainage rate.

<sup>2</sup>Does not include provincial grants for education.

<sup>3</sup>The Total Revenue includes more than total taxes and provincial assistance but these are excluded because their totals are insignificant.

Source: Figures calculated from data available in Municipal Financial Information for 1968, 1971, 1974, Ministry of Treasury, Economics and Intergovernmental Affairs, Toronto.

Table 1-3

Percentage of Total Revenue Coming from Total  
Municipal Taxation and Provincial Assistance  
for Selected Years

---

		<u>1968</u> %	<u>1971</u> %	<u>1974</u> %
Total Municipal Taxation: <sup>1</sup>				
	Metro	83	78	74
	Regions	N.A.	68	65
	Total Local Sector	80	76	68
Provincial Assistance: <sup>2</sup>				
	Metro	9	12	16
	Regions	N.A.	19	23
	Total Local Sector	11	14	22

---

<sup>1</sup>Includes Residential Property Tax Reduction Funds for 1968 and 1971.

<sup>2</sup>Excludes the provincial grant for education.

N.A. - not applicable.

Source: Calculated from Municipal Financial Information 1968, 1971, 1974, Ministry of Treasury, Economics and Intergovernmental Affairs, Toronto.

Table 1-4

Relationship of Metro's Per Household  
Property Tax to That of the Regions and the  
Total Local Sector for Selected Years

	Metro/Regions		Metro/Total Local Sector		
	<u>1971</u>	<u>1974</u>	<u>1968</u>	<u>1971</u>	<u>1974</u>
Property Tax	1.11*	1.18	1.33	1.25	1.27

\*Per household property taxes in Metro were 11 per cent higher than in the other regions.

Source: Calculated from Municipal Financial Information, 1968, 1971, 1974, Ministry of Treasury, Economics and Intergovernmental Affairs, Toronto.

Table 1-5

Percentage of Total Expenditures Financed  
by Residential and Farm Property Taxation<sup>1</sup>

	<u>1968</u> %	<u>1971</u> %	<u>1974</u> %
Metro	45	41	39
Regions	N.A.	42	39
Total Local Sector	46	44	38

<sup>1</sup>The total expenditures exclude the expenditures on education resulting from provincial grants. Property taxes include the Residential Property Tax Reduction Program for 1968 and 1971.

Source: Calculated from Municipal Financial Information, 1968, 1971, 1974, Ministry of Treasury, Economics and Intergovernmental Affairs, Toronto.



property taxation, while higher in Metro than elsewhere in the province, increased more slowly (2.3 per cent annually) than the provincial average (4.5 per cent annually). Fifth, the percentage of total expenditures financed by taxation (both total municipal taxation and residential property taxation alone) decreased from 1968 to 1974 for all municipalities compared, while the percentage of total expenditures financed by provincial assistance increased over the same time period and for the same municipalities. Sixth, Metro financed a greater percentage of its total expenditures out of total taxation and a lower percentage out of provincial assistance than did the regions or the total local sector.

While the above conclusions can be drawn from the material presented, one is still left with a number of questions. For example, which expenditures have increased the fastest and why? What impact will continuing increases have on future budgets? How much fiscal autonomy do local authorities really have in controlling their respective expenditures? These and similar questions will be discussed in Part II of this study which deals with expenditure analysis. Further questions arise on the revenue side. Is the property tax regressive? Is the property tax outdated? Could Metro finance its expenditures from alternative taxes? If so, what is the potential yield of and what are the implications of such taxes? Part III attempts to answer these and other questions. Part IV brings together the revenue and expenditure analysis previously outlined and points out the fiscal imbalance which has existed within the Metro system from 1968 to 1974. Finally, Part V (the conclusion) attempts to deal with a number of controversial issues: Are residential property taxes in Metro too high or have they increased too quickly? What are the fiscal implications of removing certain expenditures from Metro's responsibility and assigning them to the provincial government? What are the fiscal implications (to Metro) of a greater reliance on grants and less reliance on the property tax?

The purpose of this introduction is twofold: to establish a background against which the expenditures and revenues of Metro and the area municipalities can be surveyed, and to raise the main questions dealt with later in this report.



PART II

E X P E N D I T U R E      A N A L Y S I S

## CHAPTER 2

### INTRODUCTION

The rapid increase in local government spending over the past few years has generated increasing criticism from a number of sources. While some of this criticism may be valid, a good deal of it is made without adequate consideration of the benefits received as a result of this spending. For example, when an individual purchases a good or service such as a pair of shoes or a hair-cut from the private sector, (i.e. non-government) he knows the exact price he must pay and therefore tends to counter-balance his desire for that product or service with its price. On the other hand, when an individual demands or receives a service from the public sector, he seldom knows the price (or cost of supplying it) and indeed almost never has to pay for it immediately. The effect of this is two-fold. First the individual often fails to appreciate the value of those public services he receives and may criticize public spending unduly. Second, because he does not always relate the cost of public services to the benefits he receives, his demand for such services is greater than it would be if he paid for them each time he used them. There are many examples to illustrate this point. How many citizens have any idea of the cost to them personally and to the community at large of providing fire protection and policing, garbage collection and disposal, streets and roads, public health or education? Assuming individual citizens had this knowledge, what price would they be willing to pay for these services? It is simplistic to criticize government expenditures without attempting to evaluate the benefits they bring. Finally because of spillover effects and the economies of scale than can be achieved, certain services are best supplied by the public sector.

While a number of legitimate criticisms of public expenditures can be made, it is not the purpose of this study to assess public spending decisions nor is it intended to recommend the expansion, contraction, introduction or elimination of certain government programs or agencies, a responsibility that lies with those elected by the public to make such decisions on their behalf.

Rather it is an analysis of trends and patterns with respect to the expenditures and revenues of the Metro system and the implications of these trends for the future.

Chapter 3 examines the expenditures of Metro alone, the City, the Boroughs and the Metro system as a whole from 1968 to 1974 with a view to assessing changes in overall spending and spending by function.



Chapter 4 provides information on expenditure performance. Increases in total expenditures are attributed to three factors: i) inflation; ii) increases in the level of service; iii) increases in the quantity of service. This chapter estimates the impact of each of these three factors on spending. In addition, this section assesses the impact of wages and interest rates on the level of expenditures. Chapter 5 attempts to forecast future expenditures and finally, chapter 6 outlines a number of problems in the financial management area.

## CHAPTER 3

### WHERE DO LOCAL GOVERNMENTS SPEND THEIR MONEY?

#### A. Comparative Analysis of Total Current Expenditures

In Figure 3-1 expenditures for each of the main municipal functions are shown as percentages of the total expenditures, for the years 1968 to 1975.<sup>1</sup> Expenditures for each function represent the aggregate expenditures of each of the municipalities, including the City of Toronto, East York, Etobicoke, North York, Scarborough, York and Metropolitan Toronto.<sup>2</sup>

There are some noticeable changes in the percentage of total expenditures allocated to specific functions over the eight year period. One of the most dramatic changes is in education. Expenditures for education, expressed as a percentage of total expenditure, declined by 7.9 percentage points from 1968 to 1975. This, however, is not an indication that the costs of education are decreasing. On the contrary, as will be shown later, the per pupil cost of education has risen steadily.<sup>3</sup> While the total population of Metropolitan Toronto increased by 11.9 per cent from 1968 to 1974, the student enrolment in Metropolitan schools for the same period increased by only .4 per cent.<sup>4</sup> The decline in percentage of total expenditures

---

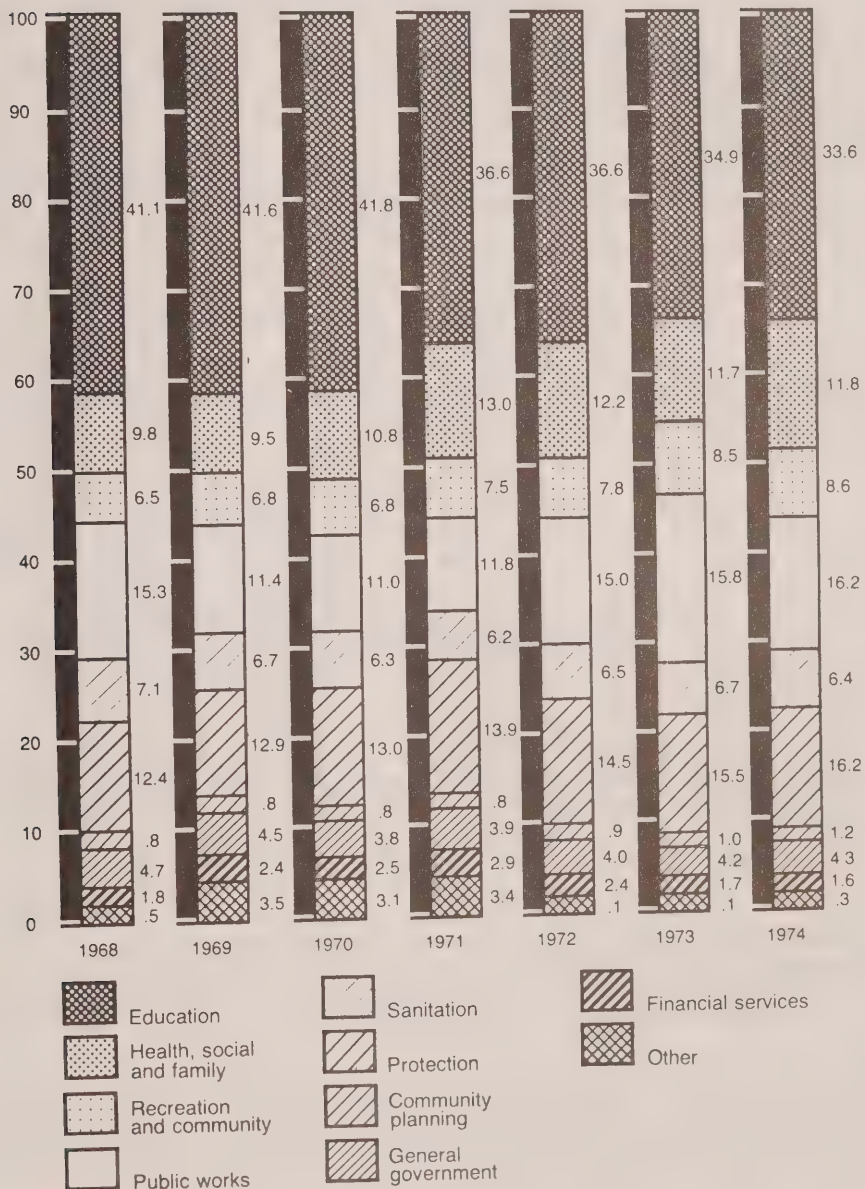
<sup>1</sup> Provincial grants for education are excluded from both the expenditure figures for education and from total expenditures in sections A and B of this chapter. While some debate over this treatment of provincial grants for education remains, it is our intention to assess the impact of expenditures made directly by the municipal government. The total or overall impact of educational expenditures, including provincial grants, is examined in part X of section B.

<sup>2</sup> All data used as a basis for Figure 3-1 and the following Figures 3-2 to 3-11 were taken from Jarrett, Goold and Elliott, A Financial Profile of Metropolitan Toronto and its Constituent Municipalities - 1967 to 1975, Toronto, The Royal Commission on Metropolitan Toronto, 1975.

<sup>3</sup> See part X of section B of this chapter for a brief analysis of total educational expenditures. This section refers to expenditures on education financed by the local sector in Metro.

<sup>4</sup> Ministry of Education, Report of the Ministerial Commission on the Organization and Financing of the Public and Secondary School Systems in Metropolitan Toronto, Toronto, 1974, Table 3.

**Figure 3.1: Current Expenditures by Function as a Percentage of Total Expenditure in Metro System (excluding provincial grant for education)**



allocated to education can be attributed, then, to the reduced percentage of the Metropolitan population attending elementary and secondary schools.

Other functions which have declined as percentages of the total expenditures are sanitation, "which includes maintenance of the sanitary sewerage system and garbage collection in the area municipalities, and trunk sewers, treatment plants and garbage disposal in Metropolitan Toronto,"<sup>5</sup> and public works, "which includes roadways, sidewalks, traffic control, drainage, engineering and snow removal."<sup>6</sup> Sanitation, as a percentage of total expenditures, declined by 1 percentage point (\$12 million) and public works by .6 of one percentage point (\$7 million) from 1968 to 1975.

Three expenditure functions represented significant increases, as a percentage of total expenditures: protection; health, social and family services; and recreation and community.

Expenditure for protection, which includes "fire-fighting, safety inspections and street lighting in the area municipalities, and police, licensing and emergency services in Metropolitan Toronto,"<sup>7</sup> increased substantially as a percentage of total expenditure from 1968 to 1975 by 4.7 percentage points.

The allocation for health, social and family services, which includes "public health services, public health inspections and grants to public hospitals in the area municipalities and health, welfare and grants to hospitals in Metropolitan Toronto,"<sup>8</sup> has increased by 3.1 percentage points as a percentage of total expenditures from 9.8 per cent of the total in 1968 to 12.9 per cent of the total in 1975.

Expenditure for recreation and community services, which includes "expenditures for parks, recreation, libraries and other community services,"<sup>9</sup> has increased as a percentage of total expenditures by 2 percentage points, from 6.5 per cent in 1968 to 8.5 per cent in 1975.

The total percentage allocation for community planning increased by .4 of one percentage point. Although as a percentage of total expenditure this function declined in the municipalities of York and North

---

<sup>5</sup>Jarrett, Goold and Elliott, A Financial Profile of Metropolitan Toronto and Its Constituent Municipalities, 1967-1973, Toronto, 1975, p. 87.

<sup>6</sup>Ibid, p. 87.

<sup>7</sup>Ibid, p. 86.

<sup>8</sup>Ibid, p. 87.

<sup>9</sup>Ibid, p. 87.



York, from 1968 to 1975, there was an average increase in percentage of expenditures allocated to this function in the individual municipalities of .5 per cent. This function represents a minor percentage of total expenditures, .8 per cent in 1968 and 1.2 per cent in 1975.

Expenditure for general government as a percentage of total expenditures has remained fairly constant over the eight year period. This expenditure will be analyzed in more depth later in this report.

Financial expenses, which include "expenditures related to the costs of handling money such as interest charges, bank service charges and foreign exchange charges,"<sup>10</sup> also represent a fairly minor percentage of total expenditures. They ranged from a high of 2.9 per cent in 1971 to a low of 1.4 per cent in 1975 and have declined steadily in the last 5 years.

From the above comparisons, it is obvious that the trend in expenditure is towards allocating a greater amount of the total budget to the 'soft' services such as protection, social and family services, health services and recreation and community services, and towards allocating a lesser amount to 'hard' services such as public works and sanitation. It can also be noted that those expenditures which are increasing most rapidly have a large labour component, and with the rising costs of labour, allocations to these functions will likely increase in the future.

B. Comparative Analysis of Per Household Current Expenditures by the Area Municipalities and Metropolitan Toronto for the Major Functions

In Figures 3-2 to 3-11 the per household<sup>11</sup> expenditures for each of the major functions are compared for the years 1968-1974. Each of the expenditures for the

---

<sup>10</sup>Ibid, p. 88.

<sup>11</sup>This study employs per household expenditure rather than per capita expenditure as a measure of the level of service being provided. It is felt that this is more valid for many of the functions since a number of the services are basically supplied to households. For example, fire protection, roads and water connections, etc. relate primarily to the number of dwellings in a municipality. Similarly, the residential property tax is levied against land and buildings without regard to the number of people living in them. For a further study in which per household expenditures are used, although for a different geographical area of study, see Ministry of Treasury, Economics and Intergovernmental Affairs, Regional Government in Perspective: A Financial Review, Ontario Tax Study 11, Toronto, 1976. See Appendix B of this study for per household expenditure data and Appendix C for per capita expenditure data.



area municipalities and Metropolitan Toronto are plotted separately. As well, a total has been plotted which includes expenditures by the seven municipalities, divided by the total households in Metropolitan Toronto, and this then, represents an average per household expenditure. While the graphs for each municipality allow a comparison of expenditure functions among the municipalities,<sup>12</sup> the graph for the total of all expenditures gives a better general indication of which functions have increased most rapidly over the past eight years. In undertaking this comparative analysis, one must be careful when choosing the unit for comparison; for example, it is quite useful to compare the functional expenditures between the boroughs and the City of Toronto but rather meaningless to compare these expenditures with those of Metro alone. Metro's responsibilities, even within the same categories, are quite different from the responsibilities of the lower tier governments.

Figure 3-2 indicates that total per household expenditures have increased substantially over the past few years. Total per household expenditures by all municipalities increased by 33.0 per cent from 1968 to 1974, or an average annual increase of 5.5 per cent. For comparative purposes it is interesting to note that York's total per household expenditures increased by the largest percentage (45.3 per cent), whereas North York's per household expenditures increased by the least percentage (28.6 per cent). Toronto's per household expenditures increased by 41.6 per cent, Etobicoke by 37.6 per cent, Scarborough by 37.4 per cent and East York by 19.8 per cent from 1968 to 1974. Metro's expenditures, while much larger in absolute terms because of educational expenditures (see Appendix B), increased by 41.6 per cent over the same time period.

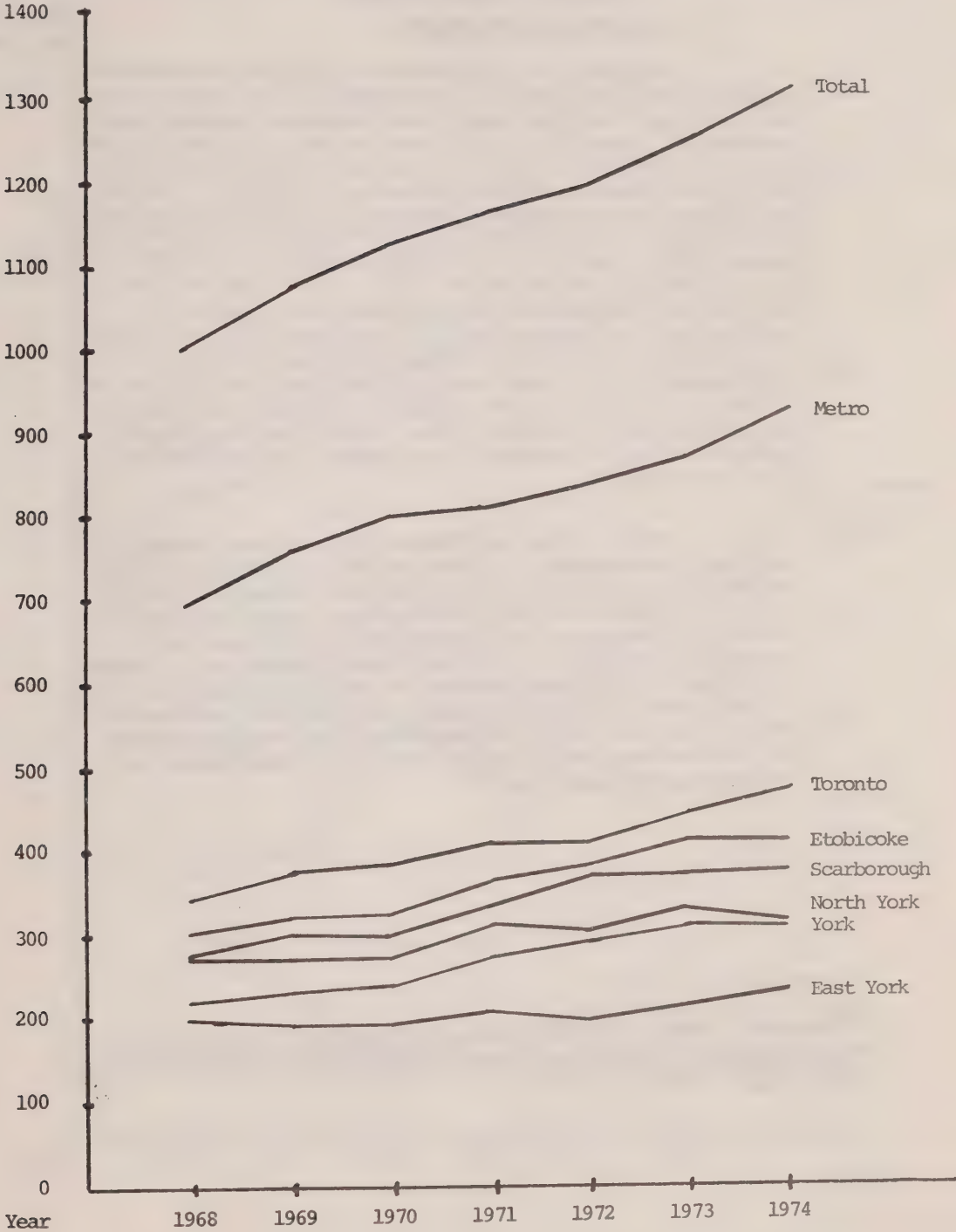
---

<sup>12</sup>For a description of the differences in the responsibilities of the upper and lower tier governments, see Smith, Auld and Associates, The Organization of Local Government in Metropolitan Toronto, Background Report for The Royal Commission on Metropolitan Toronto, Toronto, Ontario, 1975.

Figure 3-2: Total Per Household Current Expenditures  
For the Years 1968-1974

Per Household  
Current  
Expenditure

(\$)



i) General Government

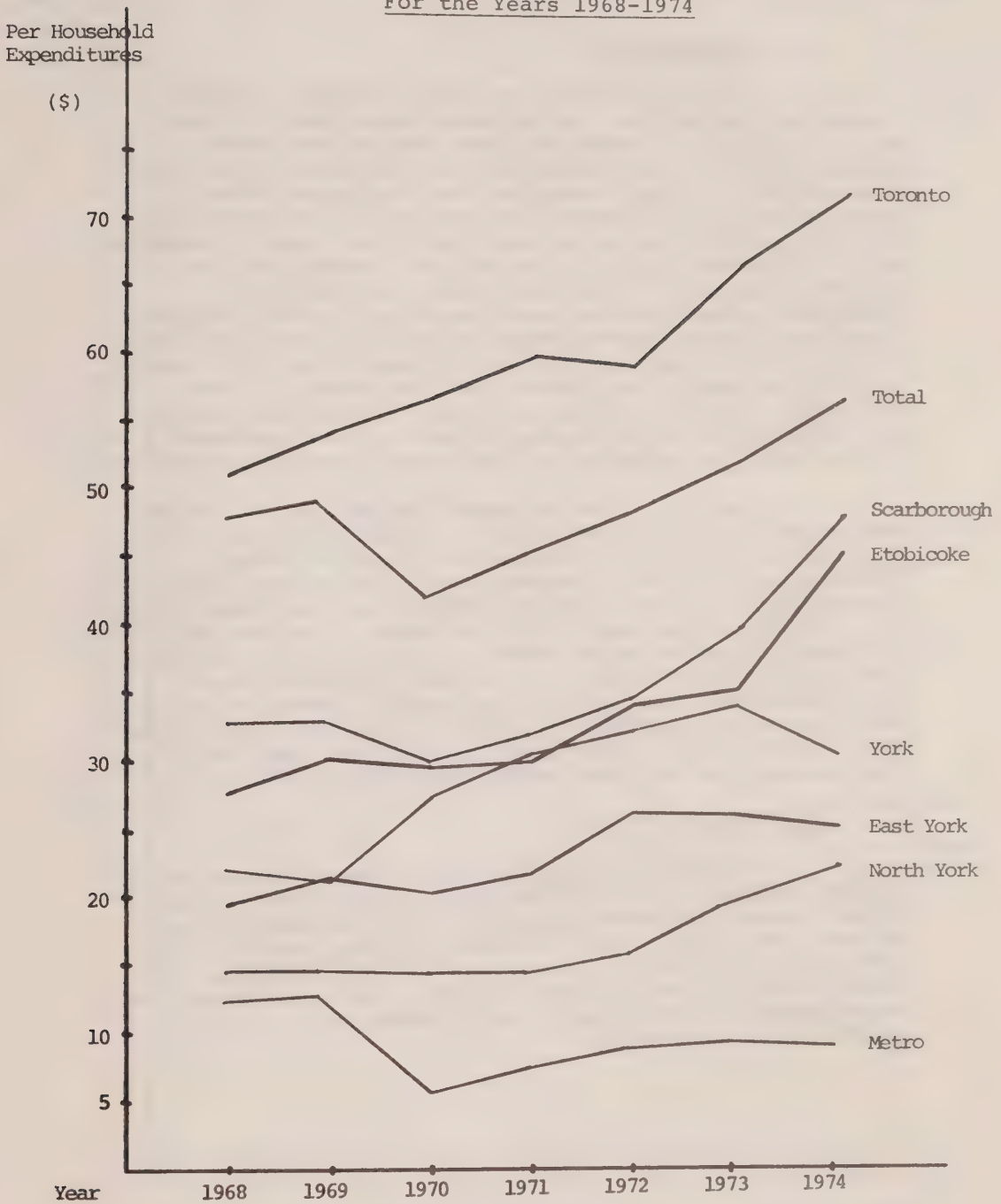
Figure 3-3 illustrates the per household expenditure for general government. In every year, the City of Toronto spent the greatest amount per household, spending 1.5 times as much as Etobicoke (the next highest) and 3.1 times as much as North York (the lowest of the boroughs) in 1974. While not directly comparable because of different responsibilities, Metro alone spent the least amount per household. The City of Toronto spent 7.7 times as much per household as Metro in 1974. Over the period from 1968 to 1974 per household expenditures for general government increased by 64.7 per cent in Etobicoke, 61.4 per cent in North York, 47.8 per cent in Scarborough, 41.4 per cent in Toronto, 36.2 per cent in York, 31.9 per cent in East York and decreased 26.1 per cent in Metro. The total per household expenditures for general government increased by 21.8 per cent.

The higher per household expenditures on general government in Toronto as compared to the other area municipalities can be accounted for by the fact that the City designates some programs as general government expenditures which are not normally found in the other municipalities. These include "(1) a Development Department involved in a neighbourhood improvement program and pedestrian malls, (2) an Audit Department, (3) a Department of Purchasing and Supply and (4) a Department of Budgets and Accounts."<sup>13</sup>

---

<sup>13</sup>Jarrett, Goold and Elliott, A Financial Profile of Metropolitan Toronto and Its Constituent Municipalities, 1967-1973, 1975, p. 86.

Figure 3-3: Per Household Expenditures for General Government  
For the Years 1968-1974





ii) Protection

Figure 3-4 sets out per household expenditures on protection, which have shown some of the most significant increases over the period under review. Metro's per household expenditures have been consistently higher than the area municipalities because Metro is responsible for police and emergency services, while the area municipalities are responsible only for fire-fighting, protective inspections and street lighting.<sup>14</sup> The fact that Toronto's per household expenditures seem disproportionately higher than the other area municipalities (1.4 times as high as Etobicoke which was the next highest and 1.9 times as high as North York which was the lowest of the boroughs in 1974), can be partially accounted for by the high ratio of office buildings to the permanent population, in relation to the other area municipalities.<sup>15</sup>

The total per household expenditures for all municipalities for protection increased from \$123.93 in 1968 to \$215.49 in 1974, or by 73.9 per cent. Metro's per household expenditures, while not directly comparable with the area municipalities increased by the largest percentage (94.0 per cent), indicating the rapidity with which costs associated with police protection are rising. York's per household costs for protection rose by 70.5 per cent, Toronto's by 58.5 per cent, East York's by 58.1 per cent, Etobicoke by 52.5 per cent, North York by 51.0 per cent, and Scarborough by 38.0 per cent from 1968 to 1974.

iii) Public Works

Figure 3-5 indicates that expenditures for public works have been more erratic than most of the other expenditures, but certain trends are emerging. As has been noted above the tendency has been for the area municipalities to spend a smaller proportion of their total budget on public works, and this trend can be expected to continue as development slows in the larger outer boroughs.

---

<sup>14</sup>Ibid, p. 86.

<sup>15</sup>Ibid, p. 95.

Figure 3-4: Per Household Expenditures for Protection  
For the Years 1968-1974

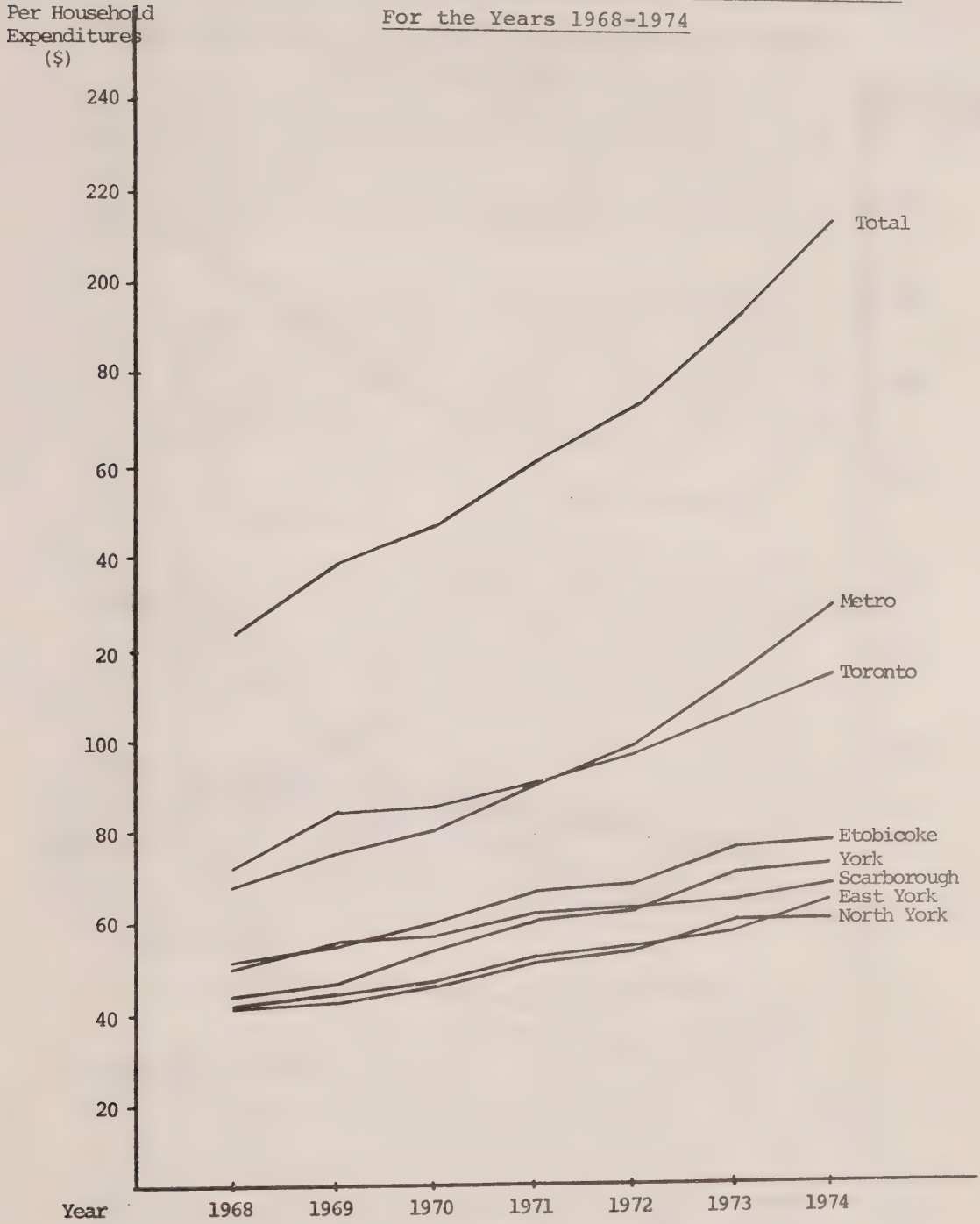
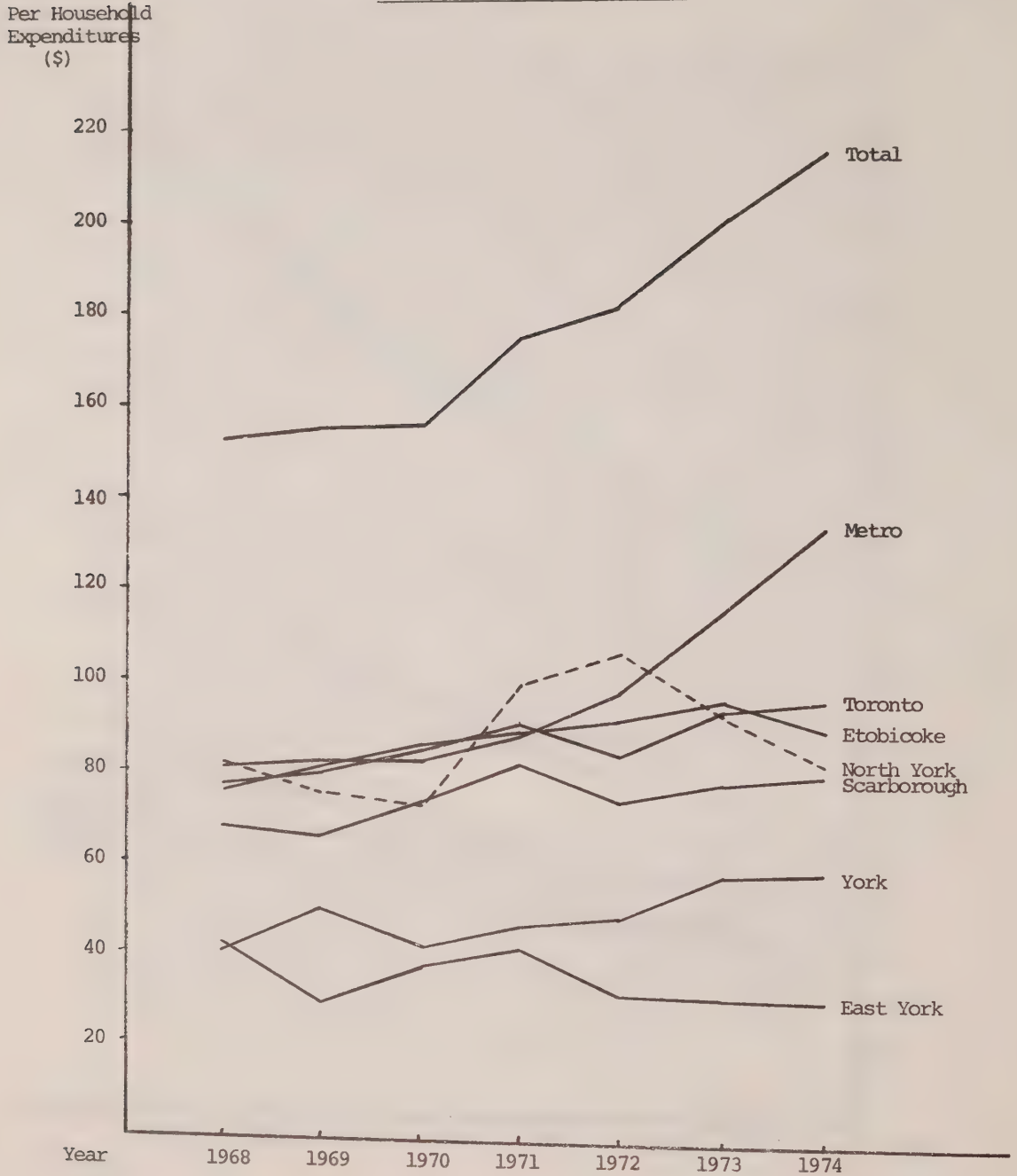


Figure 3-5: Per Household Expenditures for Public Works  
For the Years 1968-1974



On the other hand, Metro's expenditures for public works have increased rapidly since 1971 when Metropolitan Toronto assumed responsibility for the Toronto Transit Commission's operating deficit. With the prospect of increasing transit operating costs, it is likely that Metro's expenditures for public works will continue to increase at a rapid pace.

From 1968 to 1974, Metro's per household expenditures on public works increased by 63.3 per cent, York's by 44.0 per cent, Toronto's by 25.0 per cent, Etobicoke's by 16.6 per cent, Scarborough's by 16.3 per cent, North York's by 3.2 per cent. East York's decreased by 29.0 per cent. The overall total expenditure for public works increased by 40.7 per cent.

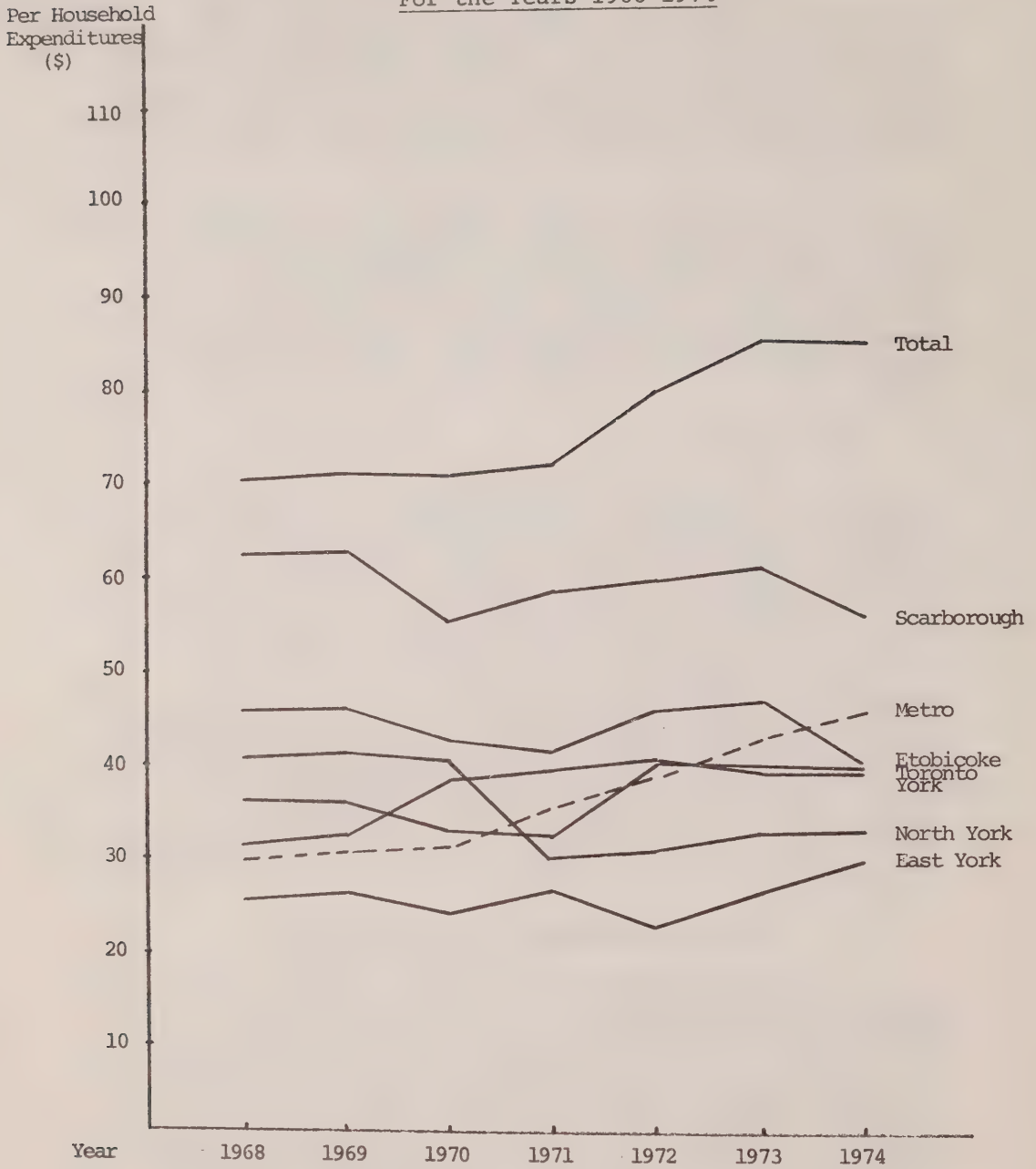
#### iv) Sanitation

Per household expenditures for sanitation, presented in Figure 3-6, showed modest increases in comparison with most of the other expenditure functions. In fact, three municipalities showed decreases in expenditures over the seven years from 1968 to 1974. These included North York where per household expenditures fell by 18.7 per cent, Etobicoke by 15.3 per cent) and Scarborough by 11.9 per cent). York's per household expenditures rose by 20.3 per cent, East York's by 12.9 per cent, and Toronto's by 6.9 per cent. Metro alone showed the largest percentage increase in per household expenditures for sanitation (52.5 per cent); Metro has the responsibility for treatment plants and garbage disposal which the other municipalities do not have. Total per household expenditures for sanitation rose by 19.6 per cent from 1968 to 1974.

#### v) Health, Social and Family Services

As can be seen in Figure 3-7, Metro, with exclusive responsibility for social services, is responsible for the major portion (84.5 per cent of the total expenditures on this function in 1974), and carries responsibility for the rapid increase in per household expenditures for health, social and family services from 1968 to 1974. Metro spent 27.1 per cent of its budget (excluding educational expenditures) on health, social and family services in 1974, whereas the area municipalities' expenditures ranged from 8.7 to 4.1 per cent of their total budgets.

Figure 3-6: Per Household Expenditures for Sanitation  
For the Years 1968-1974

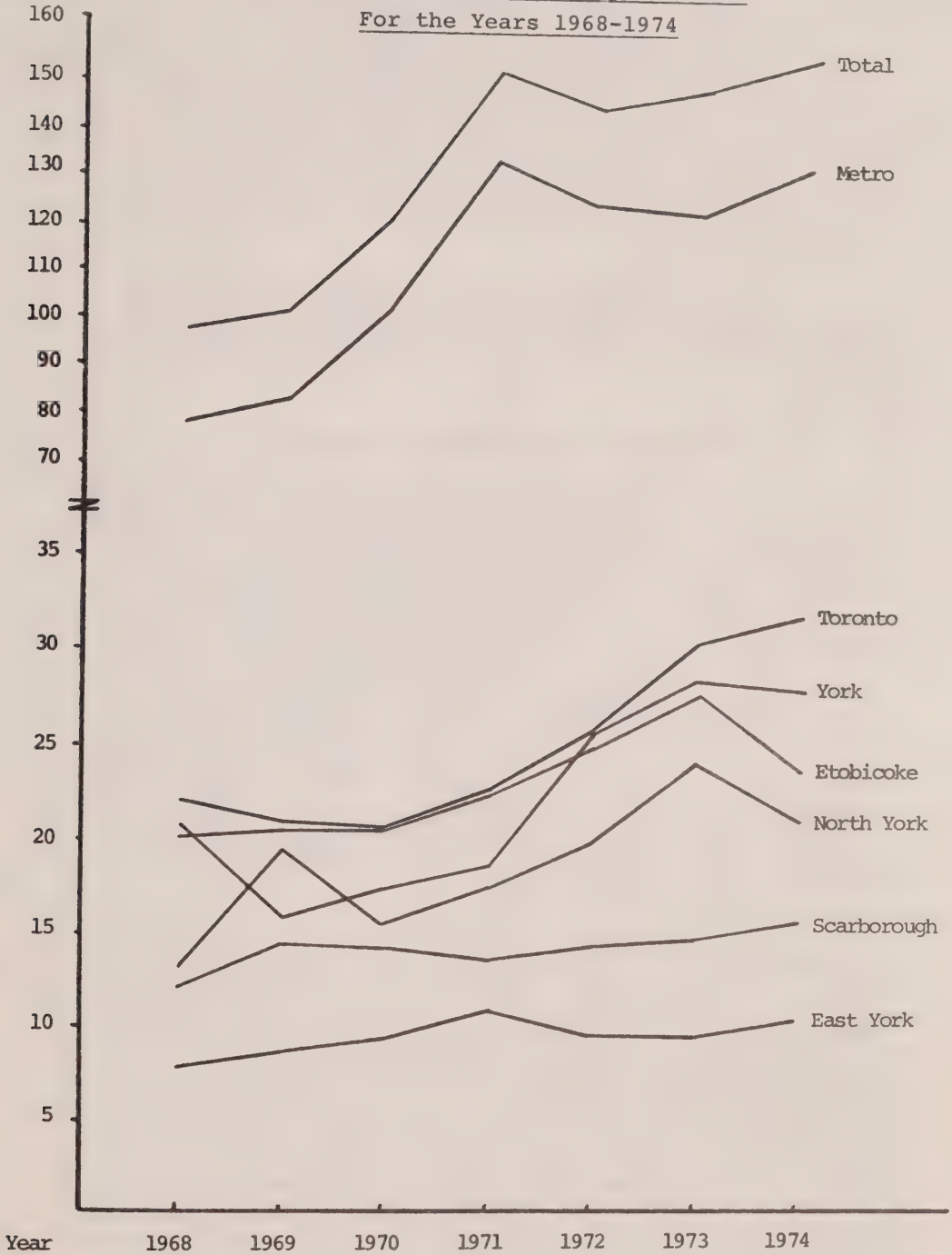




Per Household  
Expenditures (\$)

Figure 3-7: Per Household Expenditures for  
Health, Social and Family Services

For the Years 1968-1974



Metro increased its expenditures for this function by 68.7 per cent, North York by 62.8 per cent, Toronto by 44.2 per cent, East York by 34.6 per cent, York by 32.3 per cent, Scarborough by 27.1 per cent, and Etobicoke by 16.6 per cent. The total per household expenditures for health, social and family services increased by 60.1 per cent from 1968 to 1974.

Like expenditures for protection, expenditures for this function can be expected to increase fairly rapidly, as wage rates rise and more and better services of this type are demanded by the population.

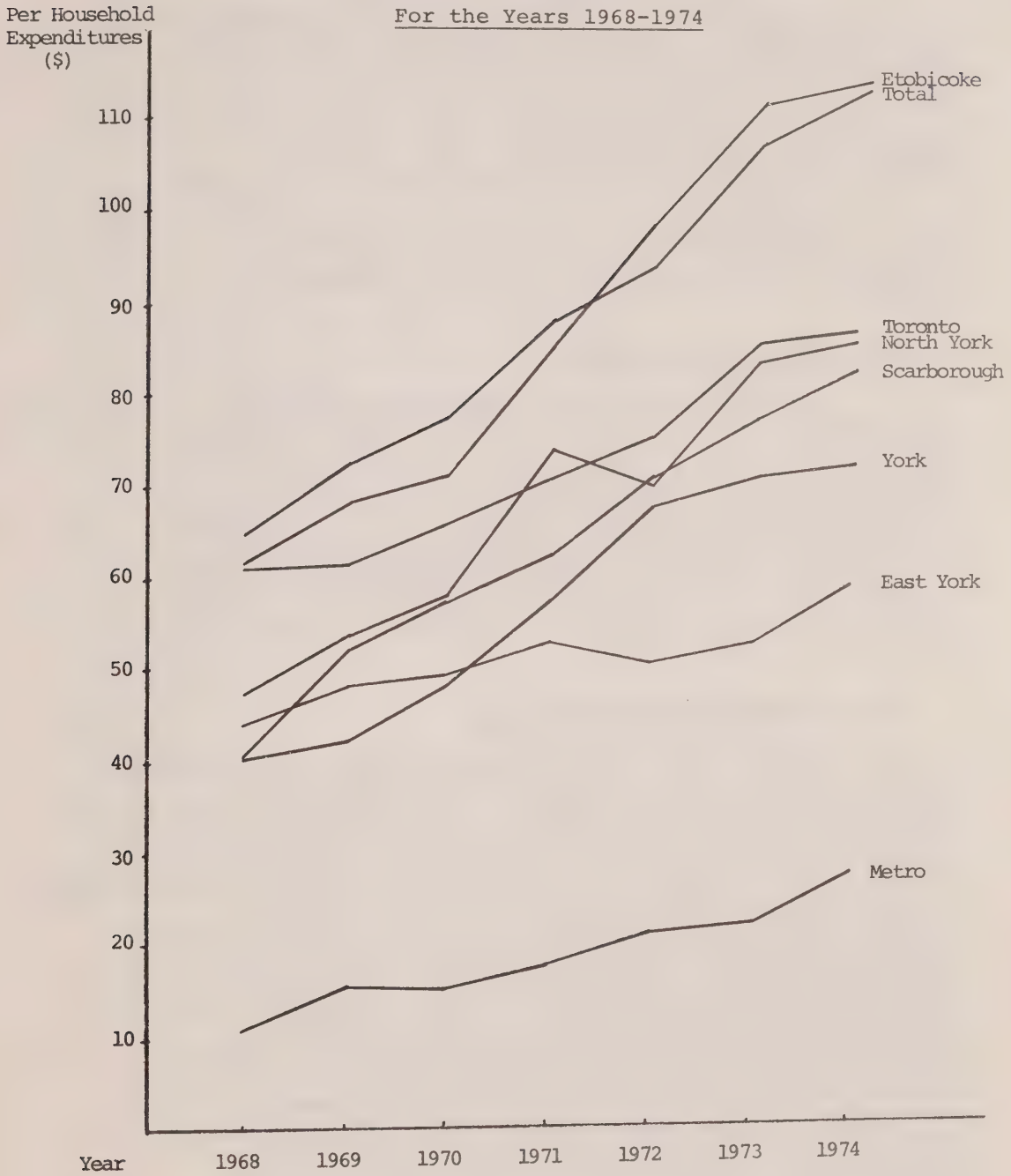
vi) Recreation and Community Services

Although they represent a smaller percentage than does protection or public works, or health, family and social services, total expenditures on recreation and community services have increased rapidly. This rate of increase can be primarily attributed to the fact that per household expenditures (in the Metro system) on recreation and community services in 1968 were fairly low when compared with other expenditure functions; for example, in 1968 recreation and community services amounted to \$65.13 per household, public works equalled \$153.10 per household, protection totalled \$123.93 and health, family and social services amounted to \$97.73 per household. Hence, given the low base (i.e. \$65.13) as a starting point, any increase in actual dollars spent over the time period under consideration will lead to a large increase in a relative (percentage) sense.

Per household expenditures by Metro alone increased by the greatest percentage from 1968 to 1974 (126.9 per cent), although as shown in Figure 3-8, Metro's per household expenditure represents a fairly small portion of total per household expenditure for this function. While not directly comparable since their expenditure responsibilities are different, it is interesting to note that in 1974 East York, with the lowest level of expenditure in this field of all the area municipalities, spent 2.2 times as much as Metro, and Etobicoke, with the highest level of expenditure of all the area municipalities, spent 4.2 times as much as Metro. Scarborough's per household expenditures increased by 105.0 per cent, Etobicoke's by 85.3 per cent, Toronto's by 41.9 per cent and East York's by 34.2 per cent. The total per household expenditure for recreation and community services increased by 74.9 per cent from 1968 to 1974.

Figure 3-8: Per Household Expenditures for  
Recreation and Community Services

For the Years 1968-1974



vii) Community Planning

Expenditures on community planning (Figure 3-9) also increased by quite large percentages from 1968 to 1974. However, it represents a very small portion of the entire budget. Scarborough's expenditures in this field increased by 348.6 per cent, Toronto's by 110.8 per cent, Etobicoke's by 77.9 per cent, and Metro's (alone) by 92.9 per cent. The increase in total expenditures for this function was 84.3 per cent.

North York's per household expenditures actually declined by 37.8 per cent over this time period due to a change in accounting procedures in 1972.<sup>16</sup>

viii) Financial Expenses

As can be seen from Figure 3-10, per household expenditures for financial services have been very erratic, and no general trend is readily discernible. Per household financial expenses decreased by 9.0 per cent in East York and 7.8 per cent for Metro alone over the period 1968 to 1974, but they increased by 358.3 per cent in North York and 228.2 per cent in Scarborough. Increases closer to the average took place in Etobicoke (27.1%), York (23.7%) and Toronto (12.2%). Total per household expenditures for this function increased by 18.1 per cent.

ix) Expenditure for Education

As was noted earlier, expenditures for education declined considerably as a percentage of the total expenditure. For the purposes of this discussion, educational expenditures refer to municipal expenditures. They do not include the provincial grant for education. For a brief discussion of this latter point, see the next section of this chapter. In 1974 in Metro alone, educational expenditure (net of provincial grants) amounted to 47.8 per cent of total expenditures, while in 1968, educational expenditures absorbed 58.5 per cent of Metro's total expenditures. Throughout this same time period, it is interesting to note that per household expenditures for education increased from \$410.51 to \$446.00 or by only 8.6 per cent. But on a per capita basis, the average annual increase was 3.67 per cent. The reason for this difference between the per capita and the per household expenditure increase can be attributed to the fact that household formation (which is the basis for much of the local revenue) has increased at a faster rate (about 4% annually) than has population (about 2% annually). Indeed, the "growth in population in Metro is more characteristic of young adults both living and working within a limited radius. Hence, the lower percentage

<sup>16</sup> Ibid., p. 111.

Figure 3-9: Per Household Expenditures for Community Planning  
For the Years 1968-1974

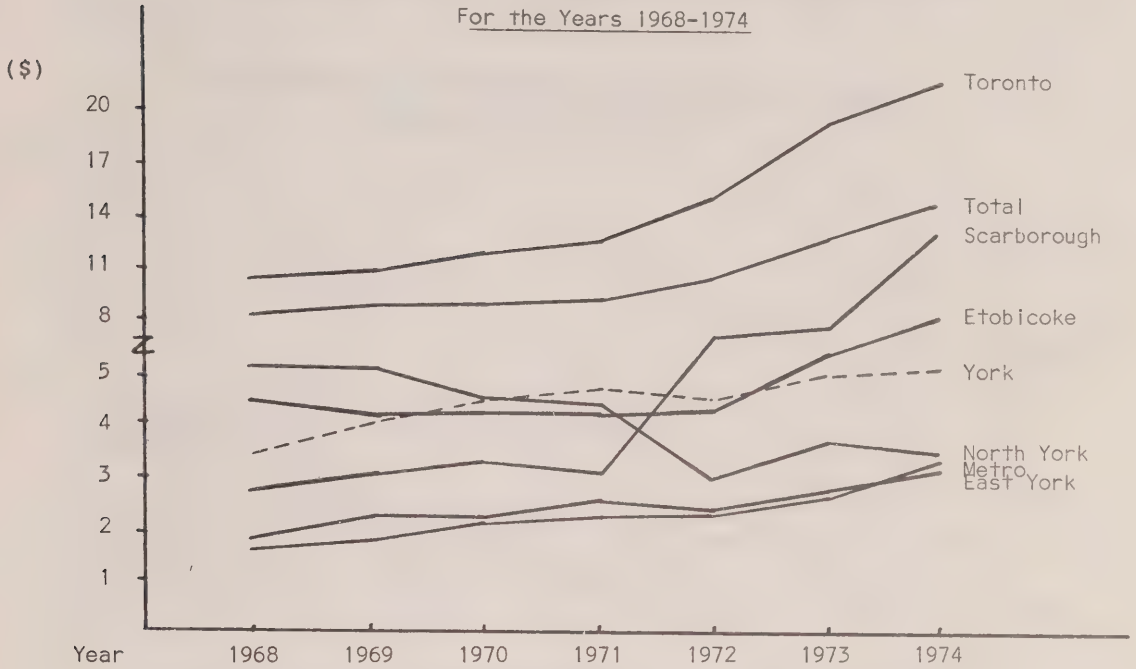


Figure 3-10: Per Household Expenditures for Financial Expenses  
For the Years 1968-1974

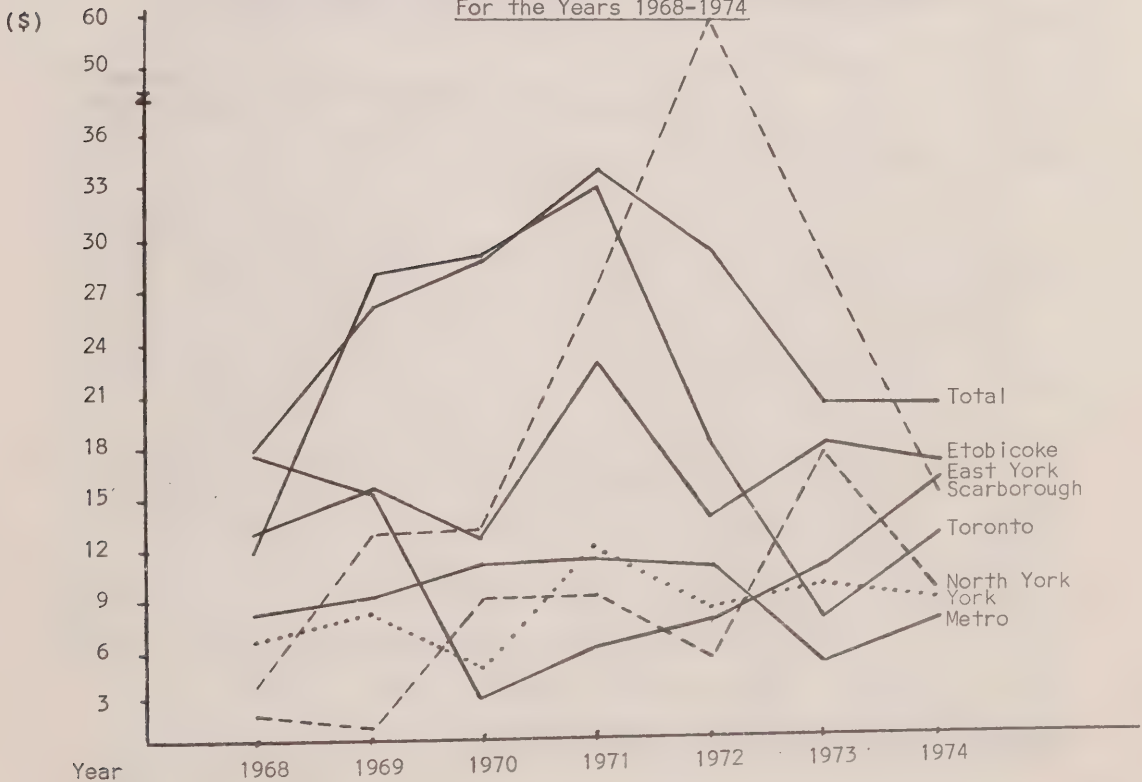
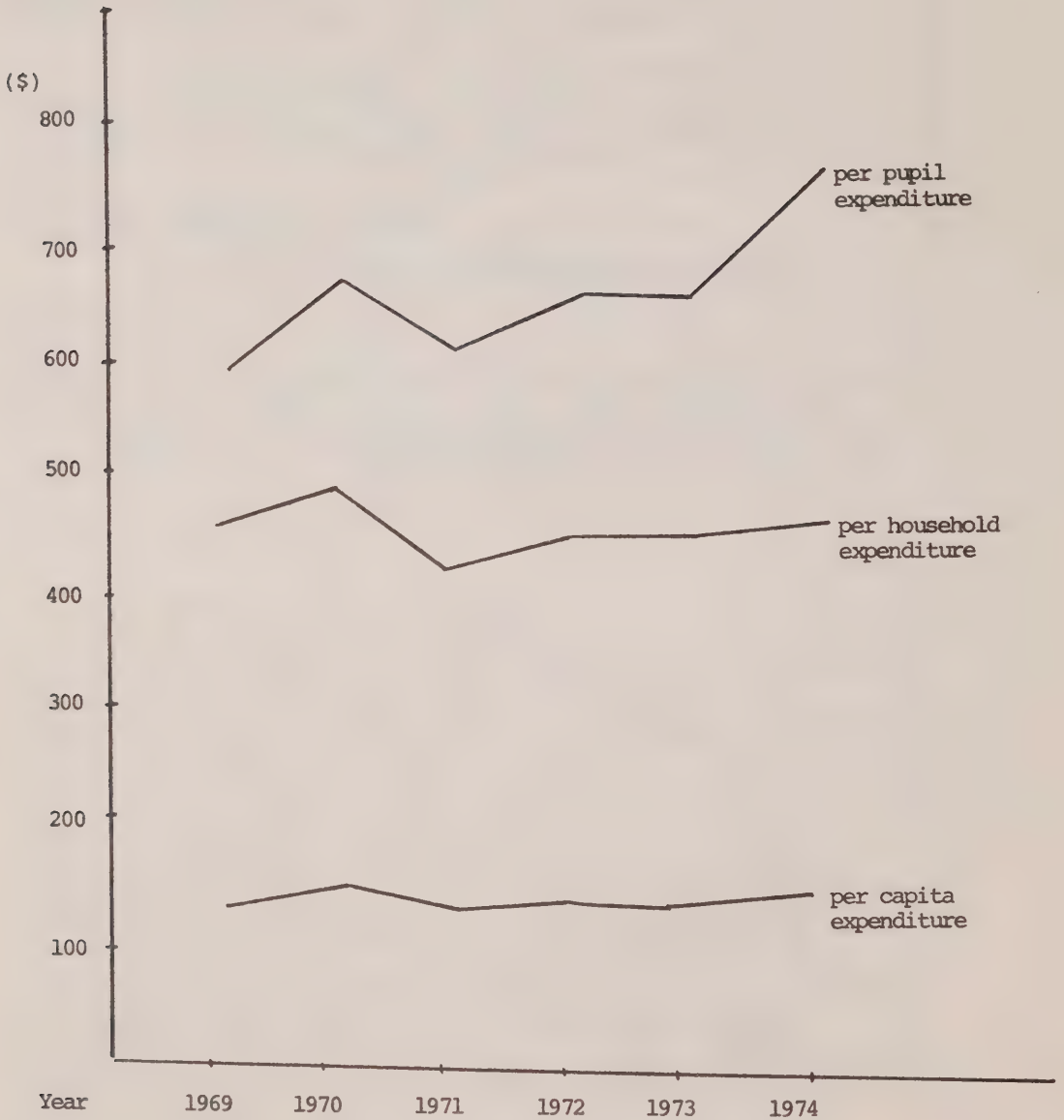




Figure 3-11: Metro's Expenditure for Education  
For the Years 1969-1974\*



\*Excludes provincial grants for education.

of students to population"<sup>17</sup> and the resultant low percentage increases in per capita or per household expenditures for education.

However, the cost to Metropolitan Toronto for education as measured by per pupil expenditure illustrates that educational costs have risen more substantially than suggested in the preceding paragraph. Expenditure per pupil rose from \$600.56 to \$733.78 or by 22.2 per cent over the five year period from 1969 to 1974, an average annual increase of 4.4 per cent. While the percentage of total expenditures which have gone to education have fallen throughout the period 1968 to 1974, it still remains the largest single item of local expenditure. For example, in 1974, education claimed 3.37 times as much as public works, 3.37 as much as health, social and family services, 3.42 times as much as protection, 9.91 times as much as sanitation, and 16.51 times as much as recreation and community services. Given this enormous impact on the local budget, one can only expect that educational expenditures will continue to absorb the largest share of Metro's budget, unless of course, some alternative arrangement can be made for financing educational expenditures.<sup>18</sup>

C. An Analysis of Total Current Expenditures -  
An Alternative Overview

In spite of the rationale (footnote 1, Chapter 3) for excluding the provincial grant for education from the earlier analysis of current expenditures, it is helpful to view the total expenditure package in the Metro system. Such an assessment must include the provincial grant for education. Figure 3-12 reflects the percentage of the total current expenditures in the Metro system which are attributed to the various functions. Since the expenditures on education in each year are now higher by the magnitude of the provincial grant, and since expenditures on the other functions have not changed, it must follow that the percentage of total expenditures absorbed by education is higher while the percentage absorbed by all other functions is lower. For example, when provincial grants are included, education accounts for 47.9 per cent in 1968 and 43.1 per cent in 1974 (Figure 3-12). Corresponding figures when the provincial grant for education is excluded are 41.1 and 33.2 per cent respectively (Figure 3-1). Although all other functions absorb smaller percentages of the total expenditure,

---

<sup>17</sup> Ministry of Treasury, Economics and Intergovernmental Affairs, Municipal Finance Branch, Regional Government in Perspective: A Financial Review, Ontario Tax Study 11, Toronto, 1976, p. 13.

<sup>18</sup> For a table summarizing the percentage increase (decrease) in per household current expenditures by function for Metro and the area municipalities from 1968 to 1974, see Appendix D.

in general each of the major functions maintains its same relative importance in any specific year.

Because education is the only expenditure which has changed from our previous analysis (Chapter 3, Part B), it is unnecessary to repeat the comments made earlier on the other per household expenditure functions. Therefore, our remaining comments in this section will concentrate on educational expenditures. Figure 3-13 and Table 3-1 illustrate the overall impact of educational expenditures when one has considered the provincial grant for education. Figure 3-13 reflects the total expenditures on a per household, per capita and per pupil basis.

Table 3-1

Metropolitan Toronto School Board Expenditures

Year	Total Educational Expenditures	School Board Expenditures as a Per Cent of the Total of Current Expenditures & Provincial Grants	School Board Expenditure as a Per Cent of the Total of Metro's Current Expenditures & Provincial Grants
	\$(000)	%	%
1968	318,550	47.9	65.0
1969	354,907	48.5	65.5
1970	410,402	49.0	65.4
1971	424,918	46.3	62.2
1972	459,605	46.4	62.1
1973	462,986	44.9	60.5
1974	495,762	43.1	57.9

<sup>1</sup> Municipal expenditure includes the total of all expenditures in Metro alone and the area municipalities (i.e., the boroughs, City of Toronto and Metro alone).

<sup>2</sup> Municipal Expenditure includes the total expenditures in Metro alone.

Source: Calculated from Municipal Financial Information, and The Annual Report of the Commissioner of Finance, Metropolitan Toronto.

**Figure 3.12** Current Expenditures by Function as a Percentage of Total Expenditure in Metro System  
(including provincial grant for education)

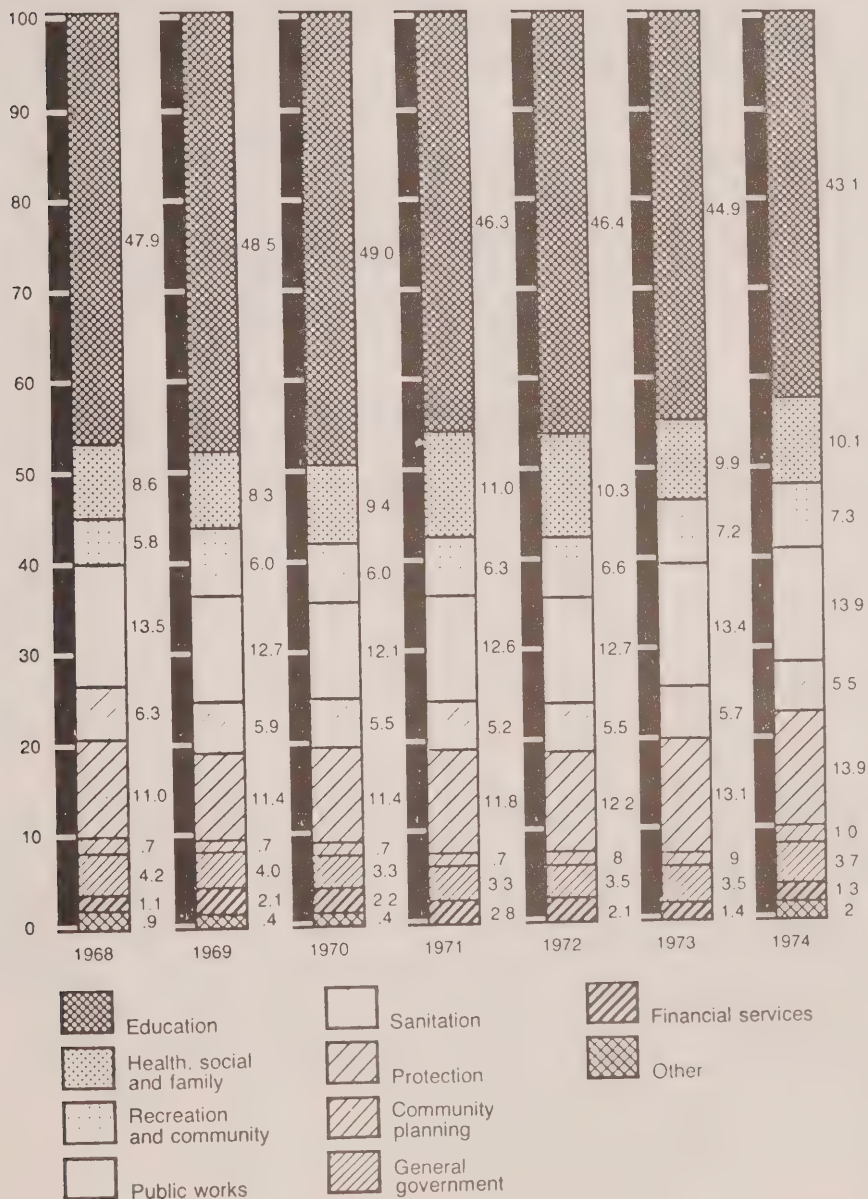


Figure 3-13: Metro's Expenditure for Education  
(including Provincial Grants)





When the provincial grant is included, the educational portion of total expenditures in Metro alone (Table 3-1) falls from 65.0 per cent of total expenditures in 1968 to 57.9 per cent in 1974. In per household terms, the expenditures on education rose from \$341.73 in 1968 to \$669.87 in 1974, an increase of 23.7 per cent. During this same time period, the provincial grant for education increased in importance. It supported 23.7% of total educational expenditures in 1969 and 32.3% in 1974, a substantial increase.

#### D. Comparative Analysis of Total Capital Expenditures

In Figure 3-14, capital expenditures for each of the main municipal functions are shown as percentages of total expenditures, for the years 1968 to 1974. As with the comparative analysis of current expenditure, expenditures for each function represent the aggregate expenditures for each of the municipalities.<sup>19</sup>

The most noticeable shifts in capital expenditures occurred in public works and education. Public works, as a percentage of total capital expenditures, fell from 38.9 per cent of the total in 1968 (the highest expenditure) to 22.9 per cent in 1974 (still the highest expenditure). Capital expenditure on education changed even more noticeably. It fell from 33.8 per cent of the total in 1968 to 10 per cent in 1974. Other items showing a considerable change over this period included sanitation which rose from 7.7 per cent to 17.3 per cent, recreation and community which increased from 4.9 to 16.6 per cent and rapid transit which rose from 4.6 to 17.4 per cent.

Capital expenditures on the remaining items, as percentages of total capital expenditures, changed rather erratically but continued to be rather insignificant in terms of their overall impact. Perhaps the only exception to this was waterworks which accounted for 3.1 per cent of the total in 1968 and 5.9 per cent in 1974. Changes in the level of capital expenditures on general government (from 1.3 to 1.4 per cent), protection (from .8 to 1.7 per cent), health, etc. (from .5 to 2.1 per cent) and community planning (from 2.3 to 1.2 per cent) had relatively little impact on overall capital expenditures.

---

<sup>19</sup> See Appendix E for a more detailed breakdown.

E. Comparative Analysis of Total Per Household Capital Expenditures for Metropolitan Toronto and the Area Municipalities from 1968 to 1974

As can be seen from Table 3-2, per household capital expenditures on public works, while the highest in both years, actually decreased by almost 44 per cent over the seven year period. This, when combined with the decrease in per household capital expenditures on education (71.5 per cent) resulted in an overall decline in total capital expenditures (on a per household basis) of 4.1 per cent. Community planning also decreased by almost 50 per cent but the absolute level of per household capital expenditures on this function was so low that it had little, if any, impact on the overall picture. It is also interesting to note that in 1968, capital expenditures on education and public works together accounted for 73 per cent of total capital expenditures. By 1974, these had fallen to 33 per cent of the total.

A number of other capital expenditure functions have shown considerable increases. For example, per household expenditures on sanitation increased by 115 per cent from \$26.20 per household (7.7 per cent of total capital expenditures) in 1968 to \$56.33 per household (17.3 per cent of total capital expenditures) in 1974. Similarly, per household capital expenditures on recreation and community services rose by 226.8 per cent, while rapid transit and waterworks increased by 265 and 82 per cent respectively. The sum of these four expenditure items accounted for 20.3 per cent of the total in 1968 and 57.2 per cent in 1974, an indication of the changing emphasis in the overall capital expenditure program.

Table 3-3 illustrates the percentage increase or decrease in per household capital expenditures for each of the area municipalities from 1968 to 1974. Metro, while not directly comparable with the area municipalities, exhibited a slight decrease in per household expenditures (1.4 per cent). This decrease was primarily attributed to the large reduction in per household capital expenditures on education, a reduction which more than offset increases in other expenditure items, particularly rapid transit. The only two municipalities to show an increase over this period were Scarborough (61.1 per cent) and York (51.0 per cent). Toronto (6.9 per cent) and Etobicoke (8.1 per cent) displayed slight decreases in their per household capital expenditures from 1968 to 1974, while East York and North York decreased their per household capital expenditures substantially (50.2 per cent and 36.9 per cent respectively) from 1968 to 1974.

**Figure 3.14 Capital Expenditures by Function as a Percentage of Total Capital Expenditures Including Education**

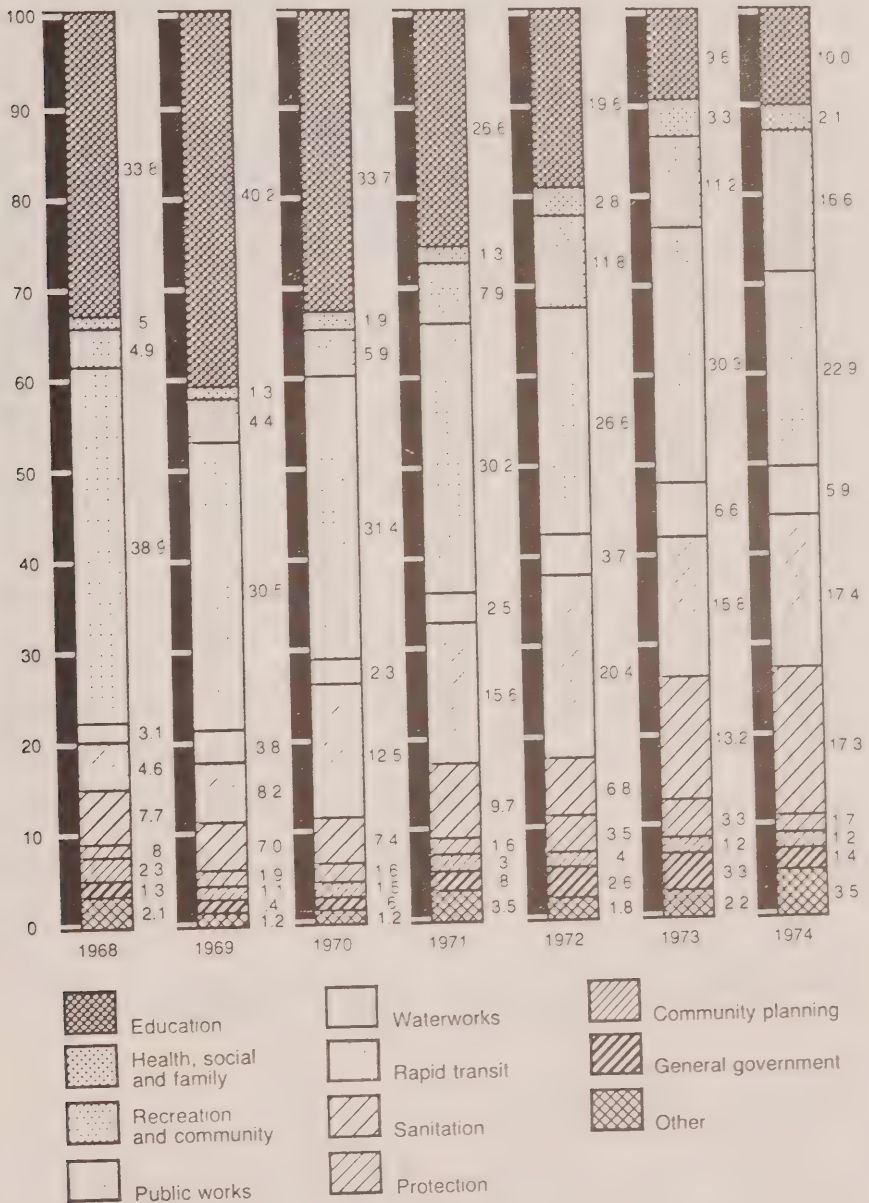


Table 3-2

Percentage Increase (or Decrease) in Total  
Per Household Capital Expenditure by Major Function

Function	Per Household Capital Expenditure		% Increase (Decrease)
	1968	1974	
General Government	\$ 4.56	\$ 4.60	.9
Protection	2.80	5.66	102.1
Public Works	132.19	74.38	(43.7)
Sanitation	26.20	56.44	115.0
Health, Social and Family Services	1.56	6.70	329.5
Recreation and Community	16.55	54.08	226.8
Community Planning	7.76	3.90	(49.7)
Rapid Transit	15.46	56.44	265.1
Waterworks	10.63	19.39	82.4
Education	114.79	32.66	(71.5)
TOTAL	339.39	325.39	( 4.1)

---

Source: Appendix E.

Table 3-3

Percentage Increase (Decrease) in Total Per  
Household Capital Expenditure by Municipality

Municipality	Per Household Capital Expenditure		% Increase (Decrease)
	1968	1974	
Toronto	\$ 124.21	\$115.68	( 6.9)
East York	110.33	54.96	(50.2)
Etobicoke	132.41	120.96	( 8.6)
North York	183.09	115.60	(36.9)
Scarborough	93.37	150.40	61.1
York	54.95	82.96	51.0
Metro alone	212.66	209.62	(1.4)
Metro system	339.39	325.39	(4.1)

---

Source: Calculated from data in Jarrett, Goold and Elliott, op.cit., and Appendix E.



## CHAPTER 4

### FACTORS INFLUENCING EXPENDITURE INCREASES

#### A. Impact of Inflation on Per Capita Current Expenditures

To demonstrate the effect which inflation has had on municipal expenditures, the expenditures by municipality and by function, in current dollars, were converted into constant dollars.<sup>20</sup> (See Appendix F)

Tables 4-1 and 4-2 demonstrate the impact of inflation within each municipality and for each of the general expenditure functions within the Metro system. It is evident that inflation has been a major factor in the rapid increases in current expenditure in the last couple of years. Inflation rates were quite low from 1968 to 1972, but then began to increase rapidly. (See Table 4-3).

Inflation accounted for a very large percentage of the growth in per household expenditures in East York (170.2%), and North York (173.8%). As indicated in Table 4-1, per household expenditures in constant dollars in these two municipalities actually declined from 1968 to 1974. The other municipalities also experienced quite large increases in per household expenditures due to inflation. The inflation component in per household expenditure increases for Toronto was 85.3%, for Etobicoke it was 91.4%, for Scarborough it was 92.0%, for York it was 80.1% and for Metro it was 89.3%.

Per household general government expenditures in constant dollars declined from \$47.17 in 1968 to \$43.03 in 1974; thus the inflationary component of the percentage increase in the function amounted to \$147.3%. Other functions which showed greater than average percentage increases in per household expenditures due to inflation

---

<sup>20</sup>The Consumer Price Index (CPI) for Toronto was taken from: Statistics Canada, Prices and Price Indexes, Vol. 53, No. 7, Table II, Ottawa, July, 1975. In general the Wholesale Price Index or the Price Index for Government Expenditures on Goods and Services would be more useful in deflating government expenditures but these indices were not used in this study because they were not available for Metro Toronto. The CPI was the only price index specifically calculated for Metro.

were sanitation (153.1%), for which constant per household expenditure declined from \$70.97 to \$63.61, financial expenses (163.5%), for which constant per household expenditure declined from \$17.68 to \$15.65, and education (131.0%) for which constant per household expenditure declined from \$541.82 to \$502.15.

Functions which demonstrated lower than average percentage increases in per household expenditure due to inflation were community planning (54.8%), recreation and community services (58.5%), protection (59.0%), health, social and family services (66.7%), and public works (86.7%).

## B. Expenditure Performance

Growth in local government expenditure can essentially be attributed to three different factors: inflation, increased volume of service, and increased level of service. Volume of service refers to the total amount of service provided within the municipality. This tends to increase as a result of "general economic growth, particularly growth in population, households and commercial and industrial activity."<sup>21</sup> Level of service refers to the amount of service available per unit of population. Growth in the level of service implies improved or increased service per unit whether it be per 1000 population, per household, or per capita.

Ideally, to assess existing expenditure programs, and to make meaningful comparisons between municipalities, expenditure growth should be separated into these three different growth components. Unfortunately non-financial statistics, which are necessary if volume and level of service are to be accurately compared, are not yet available from the municipalities in comparable form. The Ministry of Treasury, Economics and Intergovernmental Affairs "is gradually developing the non-financial reporting requirements for each municipal service."<sup>22</sup>

Lacking this more sophisticated data, a cruder but nonetheless quite useful method was used to disaggregate growth in total expenditures from 1968 to 1974, by function and by municipality, into

---

<sup>21</sup>Ministry of Treasury, Economics and Intergovernmental Affairs, Municipal Finance Branch, Regional Government in Perspective: A Financial Review, Ontario Tax Study 11, Toronto, 1976, pp. 20-21.

<sup>22</sup>Ministry of Treasury, Economics and Intergovernmental Affairs, Advisory Services Branch, The Classification of Expenditure: A Guide for Municipal Treasurers and Auditors, Toronto, 1974, p. 202.

Table 4-1

Impact of Inflation on Per Household Expenditure  
in the Municipalities

Municipality	1968	1969	1970	1971	1972	1973	1974
	\$	\$	\$	\$	\$	\$	\$
Metro: <sup>1</sup>							
Current	701.53	762.34	808.58	817.34	846.35	879.33	933.46
Constant	701.53	733.02	757.81	753.31	749.65	728.53	699.75
Metro: <sup>2</sup>							
Current	832.84	907.13	967.61	1028.99	1067.62	1109.02	1157.33
Constant	832.84	872.24	906.85	948.38	945.63	918.82	867.56
Toronto:							
Current	344.50	376.98	390.86	418.40	418.01	452.97	487.80
Constant	344.50	362.48	366.31	385.62	370.25	375.29	365.66
East York:							
Current	201.55	199.16	195.16	215.18	209.61	221.11	241.53
Constant	201.55	191.51	182.91	198.32	185.66	183.19	173.51
Etobicoke:							
Current	303.47	323.90	329.93	365.08	384.43	419.77	417.59
Constant	303.47	311.44	309.22	336.47	340.50	347.78	313.03
North York:							
Current	275.72	275.24	278.25	313.95	310.25	338.01	322.15
Constant	275.72	264.65	260.78	289.35	274.80	280.04	241.49
Scarborough:							
Current	277.82	307.38	305.53	343.10	377.42	375.89	381.61
Constant	277.82	295.56	286.35	316.22	334.29	311.43	286.06
York:							
Current	219.43	232.33	243.01	279.87	299.33	320.71	318.91
Constant	219.43	223.39	227.76	257.94	265.13	265.70	239.08
Total: <sup>1</sup>							
Current	999.43	1079.51	1131.97	1172.57	1208.01	1265.62	1328.97
Constant	999.43	1037.99	1060.89	1080.71	1069.98	1048.56	996.23
Total: <sup>2</sup>							
Current	1130.74	1224.30	1290.00	1384.22	1429.28	1495.31	1552.84
Constant	1130.74	1177.21	1209.93	1275.78	1265.97	1238.86	1164.05

<sup>1</sup>Excludes the provincial grant for education.

<sup>2</sup>Includes the provincial grant for education.

Source: Calculated from data in Appendix B, Table 4-3 and Municipal Finance Information, Ministry of Treasury, Economics and Intergovernmental Affairs, Toronto.

Table 4-2

Impact of Inflation on Per Household  
Expenditure by Function

Function	1968	1969	1970	1971	1972	1973	1974
	\$	\$	\$	\$	\$	\$	\$
General Gov't.							
Current	47.17	48.80	42.64	45.52	48.01	53.06	57.40
Constant	47.17	46.93	39.96	41.96	42.52	43.96	43.03
Protection							
Current	123.93	139.72	147.38	163.42	174.54	196.55	215.49
Constant	123.93	134.35	138.13	150.61	154.60	162.84	161.53
Public Works							
Current	153.10	155.35	156.76	174.21	181.72	199.75	215.36
Constant	153.10	118.00	117.73	127.96	160.96	165.50	161.44
Sanitation							
Current	70.97	71.84	71.16	72.57	79.03	84.95	84.86
Constant	70.97	69.08	66.69	66.88	70.00	70.38	63.61
Health, Social & Family							
Current	97.73	102.09	121.96	152.95	146.75	147.96	156.45
Constant	97.73	98.16	114.30	140.97	129.98	122.58	117.28
Recreation & Community							
Current	65.13	73.39	77.05	87.72	94.65	107.13	113.93
Constant	65.13	70.56	72.22	80.85	83.84	88.76	85.41
Community Planning							
Current	8.29	8.57	8.93	9.37	10.75	12.85	15.28
Constant	8.29	8.50	8.37	8.63	9.52	10.65	11.45
Financial Serv.							
Current	17.68	26.03	28.56	34.23	29.41	20.85	20.88
Constant	17.68	25.03	26.77	31.55	26.05	17.28	15.65
Education <sup>1</sup>							
Current	410.51	448.98	428.72	441.91	441.91	441.74	446.00
Constant	410.51	431.59	443.59	395.13	391.42	365.98	334.33
Education <sup>2</sup>							
Current	541.82	593.77	587.75	653.56	663.18	671.43	669.87
Constant	541.82	570.93	550.84	602.36	587.40	556.28	502.15

<sup>1</sup>Excludes the provincial grant for education.

<sup>2</sup>Includes the provincial grant for education.

Source: Calculated from data in Appendix B, Table 4-3 and Municipal Finance Information, Ministry of Treasury, Economics and Intergovernmental Affairs, Toronto.



TABLE 4-3

Consumer Price Index for Toronto

Year	CPI for Toronto (1968 = 100)	Rate of Inflation %
1968	100	
1969	104.0	4.0
1970	106.7	2.6
1971	108.5	1.7
1972	112.9	3.9
1973	120.7	6.9
1974	133.4	10.5
1975	147.5	10.6

Source: Prices and Price Indexes, Statistics Canada,  
Ottawa, annual publication.



the three separate components.<sup>23</sup> As can be seen from Table 4-4, inflation has accounted for the largest percentage of growth in operating expenditures. However, both the volume and the level of services increased in most municipalities,<sup>24</sup> and with respect to most functions,<sup>25</sup> demonstrating that taxpayers have been receiving additional benefits for the increased expenditures.

Table 4-4 shows that inflation was responsible for between 49.4 and 89.5 per cent of the total percentage increase in expenditure from 1968 to 1974, in each of the municipalities. Increases in volume of service was responsible for between 15.1 and 115.4 per cent of the total percentage increase in expenditure, and increases in levels of service was responsible for up to 19.9 per

---

<sup>23</sup> Given the above definitions of volume and levels of service, growth in total expenditures can be expected to be the result of inflation, increased volume and increased level of services. Growth in per household expenditures, however, can be expected to be the result of inflation and increased level of service only, since dividing by the total number of households eliminates the volume component.

The percentage increase in total expenditures and per household expenditures which can be attributed to inflation, can be found by converting the current dollar expenditures into constant dollar expenditures using the C.P.I. for Toronto. The percentage increase in per household expenditures which is not a result of inflation must be attributed to a change in the level of service provided. Once the percentage change which can be attributed to growth in level of service is known, and the percentage change in total expenditures which can be attributed to inflation is known, the third component - the percentage change in total expenditures attributable to growth in volume - can be found by adding the percentage change accounted for by the first two components and subtracting the total from 100 per cent. See Appendix G for a more detailed explanation of the calculation.

<sup>24</sup> Level of service declined in East York, North York and Metro.

<sup>25</sup> Level of service declined in the financial services function, the general government function, the sanitation function, and the education function.

cent of total percentage increase in expenditures in each of the municipalities. In fact, the level of service measured in this way actually declined in some municipalities and in Metro as a whole.<sup>26</sup>

In East York, there was a substantial increase in the number of households from 1968 to 1974 (21.0%), whereas constant total expenditures increased by only 4.1%. Therefore, a decline in the level of service resulted, and the total percentage change in expenditures for East York must be explained by inflation (89.5% of the percentage change) and volume of service (80.8 per cent of the percentage change). A similar result occurred in North York where inflation accounted for 58.4% of the percentage change and increased volume of service accounted for 115.4 per cent of the percentage change in expenditure (to be expected in an area in which household formation increased by 49.8 per cent).

If one excludes the provincial grant for education, the level of service provided by Metro alone declined by 25.5 per cent, but the number of households increased slightly more (25.9 per cent). Inflation accounted for 62.2 per cent of the increase in Metro's expenditures, whereas volume of service accounted for 38.7 per cent of the change. But if the educational expenditures arising from the provincial grant for education are included, the results are somewhat different. Inflation, then, accounted for 58.5 per cent, the level of service for 30.7 per cent of the growth in Metro's expenditures from 1968 to 1974.

Predictably, growth in the volume of services accounted for a fairly small portion of the total percentage growth in the expenditures of municipalities like Toronto and York, which have experienced relatively slow growth in family formation from 1968 to 1974 (9.7% and 12.4%, respectively); In the municipalities with higher growth rates, volume of service represents a large portion of the total percentage increase in expenditure.

---

<sup>26</sup>The Ministry of Treasury, Economics and Intergovernmental Affairs in its study, Regional Government in Perspective: A Financial Review, op.cit., also examined growth in volume and level of service, and growth due to inflation. The figures from the two studies cannot be directly compared since the functions and the areas compared are dissimilar and since the Ministry used a more sophisticated method for disaggregating the total percentage growth into the various components. However, that study also found inflation to be the most predominant cause of increased expenditure, followed by volume of service, and then level of service.

Table 4-4

Percentage of Expenditure Increases in the Various Functions and Municipalities Attributable to Inflation, Volume of Service and Level of Service, 1968-1974

Function	Inflation %	Volume of Service %	Level of Service %
General Government	72.1	75.2	(47.3)
Protection	46.1	12.9	41.0
Public Works	57.5	29.2	13.3
Sanitation	74.7	78.4	(53.1)
Health, Social and Family	49.8	16.9	33.3
Recreation and Community	45.8	12.7	41.5
Community Planning	43.9	10.9	45.2
Financial Services	76.6	86.9	(63.5)
Education <sup>1</sup>	93.2	223.1	(216.3)
Education <sup>2</sup>	70.1	60.8	(30.9)
Municipality			
Toronto	70.2	15.1	14.7
East York	89.5	80.7	(70.2)
Etobicoke	59.4	32.0	8.6
North York	58.4	115.4	(73.8)
Scarborough	49.4	42.6	8.0
York	64.5	15.6	19.9
Metro <sup>1</sup>	62.2	38.7	(.9)
Metro <sup>2</sup>	58.5	30.7	10.8
Total <sup>1</sup>	62.2	47.5	(9.7)
Total <sup>2</sup>	59.3	32.9	7.8

Figures in brackets indicate a decrease.

<sup>1</sup>Excludes provincial grant for education.

<sup>2</sup>Includes provincial grant for education.

Source: Calculated from data in Tables 4-1, 4-2, Appendix B, and Municipal Finance Information, Ministry of Treasury, Economics and Intergovernmental Affairs, Toronto.



Although inflation accounts for a fairly large portion of the increase in total expenditures for all municipalities, it accounts for a much larger portion for municipalities whose total expenditures grew relatively slowly between 1968 and 1974. East York's total expenditures increased by only 38.9 per cent from 1968 to 1974; and 89.5 per cent of this total can be attributed to inflation. Toronto's total expenditures increased by only 55.4 per cent; 70.2 per cent of which can be attributed to inflation.

By contrast, in municipalities with higher growth rates in total expenditures, inflation played a much less significant role. For example, Scarborough's total expenditures increased by 102.9 per cent from 1968 to 1974; inflation accounted for only 49.4 per cent of this increase. North York's total expenditures increased by 75.0 per cent; inflation accounted for only 58.4 per cent of this increase. Etobicoke's expenditures increased by 74.3 per cent; inflation accounted for 59.4 per cent of this increase.

For the entire Metro system (including the provincial grant for education) inflation accounted for 59.3 per cent of increased expenditures from 1968 to 1974 while the level and volume of service accounted for 32.9 and 7.8 per cent respectively.

Similar results can be found when the functions of all governments in the system are examined in relation to the three growth components.

Inflation accounts for a much smaller proportion of the total percentage increase in expenditure from 1968 to 1974 for the rapid growth functions. The largest proportion of these increases results from growth in the level of service. Expenditures for protection increased by 118.8 per cent from 1968 to 1974; of the total percentage increase only 46.1 per cent was accounted for by inflation and 41.0 by increases in level of service. Expenditures for health, social and family services increased by 101.5 per cent; 49.8 per cent of this total percentage increase was attributable to inflation and 33.3 per cent to increased level of service. Expenditures for recreation and community services increased by 120.2 per cent; 45.8 per cent of this was attributable to inflation and 41.5 per cent to increased level of service. Expenditures for community planning increased by 132.0 per cent from 1968 to 1974; 43.9 per cent attributable to inflation and 45.2 per cent to increased level of service.

General government, public works, sanitation, financial services and education showed much smaller increases (or decreases) in level of service, and a much larger portion of the total percentage increase in expenditure for these functions was attributable to either inflation or growth in volume of service.

Per household expenditures for financial services, education (including and excluding the provincial grant for education), general government and sanitation measured in constant dollars actually declined from 1968 to 1974, indicating a decreased level of service per household. The increase in expenditures for these functions must be attributable to inflation and an increase in volume of service. For general government, sanitation, and financial services, this decline can be explained by economies of scale that have been achieved in these expenditure functions and the savings realized through the use of computers and other technological innovations.

When one assesses education expenditures, excluding the educational expenditures arising from the provincial grant for education, one notices that over 93 per cent of the increase can be attributed to inflation while the level of service actually declined by 216.3 per cent. This occurred because the formation of households increased by 25.9 per cent in Metro from 1968 to 1974, while the average number of children per family declined significantly over the same time period. Consequently, with fewer children per household demanding educational services, the level of educational services per household has declined accordingly. The volume of service, on the other hand, increased by 223.1 per cent.

An alternative and more comprehensive way of viewing the educational expenditures is to assess these expenditures including the provincial grant for education. In this case, inflation accounted for 70.1 per cent of the increase, the volume of service increased by 60.8 per cent while the level of service fell by almost 31 per cent.

Because of the interaction of these three growth components it is quite impossible to predict future expenditure growth for Metropolitan Toronto, in any other but a general and approximate sense.

Inflation rates in Toronto have been high in the last few years, and they accounted for the greatest portion of the percentage increase in municipal expenditures in Metropolitan Toronto and the area municipalities. However, it cannot safely be predicted that inflation will remain at the same level in the future.



Increases in expenditure due to increases in volume of service may be expected to continue, with the growth in population (which has averaged about 2 per cent per year over the past seven years) and growth in industrial activity. Growth in expenditures as a result of increases in volume of service necessary to support general economic growth, however, is again very difficult to predict since there may be economies of scale to be realized, implying that as the municipalities grow it may be adequate for volume of service to grow at a slower pace. As well, in some functions, diseconomies of scale may exist, implying that volume of service may necessarily increase at a faster rate than the rate of increase in general economic growth.

Level of service can be expected to increase in Metropolitan Toronto and the area municipalities as personal incomes rise and individuals demand more and better public goods. As the analysis has suggested, this demand will most likely continue to shift away from the 'hard' services and towards the 'soft' services.

C. Impact of Wages on Current Expenditure

The functions for which expenditures are increasing at the most rapid pace, and those which account for a large portion of the total expenditures are generally those which are labour intensive. Activities which include labour as an "important element in the quality of service provided . . . can benefit very little from increases in productivity brought about by innovations, capital accumulation and economics of large-scale production, which are characteristic of the progressive sector of the economy."<sup>27</sup>

William J. Baumol,<sup>28</sup> in a recent article, has elucidated on this aspect of municipal costs.

"The bulk of our municipal expenditures is devoted to education which, as we have already seen, offers very limited scope for cumulative increases in productivity. The same is true of police, of hospitals, of social services, and a variety of inspection services. Despite the use of the computer in medicine and in traffic planning, despite the use of closed circuit television and a variety of other devices, there is no substitute for the personal attention of a physician or the presence of a police patrol in a crime-ridden neighbourhood. The bulk of municipal services is, in fact, of this general stamp and our model tells us clearly what can be expected as a result. Since there is no reason to anticipate a cessation of capital accumulation or innovation in the progressive sectors of the economy, the upward trend in the real costs of municipal services cannot be expected to halt; inexorably and cumulatively, whether or not there is inflation, administrative mismanagement or malfeasance, municipal budgets will almost certainly continue to mount in the future, just as they have been doing in the past. This is a trend for which no man and no group should be blamed, for there is nothing that can be done to stop it."<sup>29</sup>

---

<sup>27</sup> A.J. Robinson, Economic Evaluation of Municipal Expenditures: P.P.B., Toronto: Canadian Tax Foundation, 1971, p. 11.

<sup>28</sup> W.J. Baumol, "Macroeconomics of Unbalanced Growth: The Anatomy of Urban Crisis," American Economic Review LVII, 3 (June, 1967), pp. 415-26.

<sup>29</sup> Ibid., p. 122.

From 1968 to 1974 the total wage bill for all Ontario municipalities<sup>30</sup> increased from 41.6 per cent of total municipal expenditures, excluding education, to 44.8 per cent. Over this same period, their total wage bill increased by 121.3 per cent while total expenditures increased by only 105.6 per cent.

With respect to the wage bill of Metro and the area municipalities, it is important to note that higher wage costs can be attributed to increases in both the number of employees and wage levels. Unfortunately, information on the number of employees and the rate of remuneration per employee for each of the expenditure functions in each of the area municipalities is not available. It was only possible to obtain aggregated data on various categories of employees. Nonetheless from this information a number of inferences can be made about the impact of increases in wage rates or salaries on total expenditures.

Table 4-5 provides some interesting statistics for all employees covered by union contracts. Inside and outside workers are the largest of unionized employees in the Metro system (33 per cent each in 1970 and 31 per cent and 28 per cent respectively in 1974) and the rate of increase in their wages or salaries has far exceeded the increase in their numbers over the four year period. In short, increased wage rates and salaries have accounted for a much greater share of the increase in total labour cost than has the increase in the number of employees. If fringe benefits were included, the increase in the remuneration per employee would be even more dramatic. For example, in the Metro locals of the Canadian Union of Public Employees, the benefits package as a percentage of total compensation has increased by approximately one per cent per year from 1970 to 1974.<sup>31</sup>

<sup>30</sup> Data were taken from: Minister of Industry, Trade and Commerce, Local Government Employment, Catalogue 72-009, Vol. 2, No. 1 to Vol. 9, No. 4, Information Canada, Ottawa, 1968-1975.

<sup>31</sup> The figures presented in Table 4-5 and discussed above do not cover all employees because i) reports were not available for all municipalities and ii) there are non-unionized and contract employees included in the complement of a municipality which are not included in the union contracts submitted to the Ministry of Labour and presented above. Non-union and contract employees generally have salaries which move in the same direction as those of unionized personnel. Finally, those municipalities for which information is not available do not seriously impair the analysis of total salary change over the 1970 to 1974 period since the salaries for employees in comparable positions vary very little among municipalities.

Table 4-5  
Percentage Increase in Employees and Wage Rates or Salaries for Unionized Employees  
from 1970 to 1974

Municipality	Inside Workers		Outside Workers		Fire Departments		Police Department	
	Growth in number of Employees	Growth in Wage Rates or Salaries	Growth in number of Employees	Growth in Wage Rates or Salaries	Growth in number of Employees	Growth in Wage Rates or Salaries	Growth in number of Employees	Growth in Wage Rates or Salaries
Metro Alone	16 %	15 %	0 %	40 %	n.a. %	n.a. %	35 %	40 %
Toronto	(9)	30	(5)	40	nil	nil	nil	nil
Etobicoke	N.A.	N.A.	5	40	nil	nil	nil	nil
Scarborough	49	42	0	40	nil	nil	nil	nil
York	N.A.	N.A.	N.A.	N.A.	nil	nil	nil	nil
East York	8	38	0	40	nil	nil	nil	nil
North York	27	38	26	40	nil	nil	nil	nil
Metro System <sup>1</sup>	9	22	1	40	46	40	35	40

N.A. means "not available". Figures in parentheses indicate a decrease.

n.a. means "not applicable".

<sup>1</sup> Includes only the municipalities for which information is available.

Source: Calculated from data supplied by the Municipal Finance Branch, Ministry of Treasury, Economics and Intergovernmental Affairs, Toronto, January 19, 1977.



For inside workers, Metro alone and the City of Toronto paid higher salaries per worker in both 1970 and 1974 than did the other area municipalities. On the other hand, the outside workers received an identical hourly rate in all of the area municipalities in both 1970 and 1974.

Given the 'non-progressive' nature of the service sector, and the increasing public involvement in the provision of services requiring large amounts of labour, it can be speculated that wages will continue to be a significant factor in the costs of providing municipal services in the future.

#### D. Impact of Interest Rates on Expenditure

Table 4-6 illustrates a number of salient features<sup>32</sup> surrounding municipal debt in Metropolitan Toronto. From 1971 to 1975, gross debt increased by 11 per cent whereas net debt<sup>33</sup> decreased by almost 5 per cent. This decline in net debt primarily reflects a progressive increase in provincial assistance to service debt incurred for school purposes, from 28.3 per cent in 1971 to 47.4 per cent in 1975. At the same time, the net debt per capita and per household fell. Debt service as a per cent of total municipal revenue fell from 17.8 per cent in 1971 to 13.6 per cent in 1975.

For the period 1972 to 1975 (Table 4-7), interest payments represented between 57.0 per cent and 61.5 per cent of debt servicing charges, the remainder being used to repay principle. For the years 1976 to 1980, interest payments are expected to range between 56 per cent and 63 per cent of the total cost

---

<sup>32</sup> The Metropolitan Toronto Corporation (Metro alone) issues debentures on behalf of area municipalities, the Metro Toronto School Board and municipal utilities. With certain exceptions, the area municipalities, the Toronto Transit Commission, and other municipal utilities, the Metropolitan Toronto School Board and the boards of education of the area municipalities do not have the power to issue bonds or debentures. For a more detailed discussion of this, see the Prospectus on The Municipality of Metropolitan Toronto, by Salomon Brothers, Dominion Securities Harris & Partners Inc., Wood Gundy Incorporated, June 30, 1976, p. 6.

<sup>33</sup> The difference between gross debt and net debt is attributed to certain debts being financed out of user charges (in the case of municipalities) or being repaid to the municipality by the province (as in the case of education and the administration of justice). Net debt, then, is the amount which must be financed by the municipality from local taxation.



Table 4-6

Selected Debt Information

At December 31	Gross Debt (000,000)	Net <sup>1</sup> Debt (000,000)	Debt Per Capita		Debt Per Household		Debt service on Funded Debt as a % of Total Revenue <sup>2</sup>
			Gross	Net	Gross	Net	
1971	\$1,489	\$ 837	\$ 724	\$ 407	\$2,244	\$1,261	17.8%
1972	1,546	845	731	399	2,231	1,219	17.3
1973	1,582	832	747	393	2,294	1,207	17.0
1974	1,654	798	778	376	2,235	1,078	15.5
1975	1,656	796	769	370	N.A.	N.A.	13.6

N.A. - not available.

<sup>1</sup> In this table, Net Debt refers to Net Tax Supported Debt.<sup>2</sup> Debt service includes interest on all long term obligations, statutory sinking deposits and principal instalments on serial debentures.Source: Information obtained from a prospectus on The Municipality of Metropolitan Toronto, Salomon Brothers, Dominion Securities Harris & Partners Inc., Wood Gundy Incorporated, June 30, 1976.

of servicing debt. This estimate is based on the funded debt outstanding at May 31, 1976. Any increase in the amount of debt outstanding during the next few years will obviously lead to an increase in total debt service charges. In per capita terms, interest costs were \$71.70 per capita in 1972 and \$77.98 in 1978, an increase of 8.8 per cent. Over the same years, the cost of repaying the principal will remain at roughly \$30 per person.

Although interest rates over the past 20 years have fluctuated, the general trend has been upward (see Table 4-8). This has increased the cost of municipal services, for even a one per cent increase in the cost of borrowing can add millions of dollars to municipal expenditures. For example, in 1972 total interest payments were \$86,422,000. If it were assumed that the average rate of interest on the debentures outstanding was 6 per cent, an increase of one percentage point in the interest rate would have meant that interest payments would have increased by roughly \$14 million.

Unfortunately, future interest rates cannot be predicted with any certainty, but the costs of borrowing have been quite high in recent years. Indeed, a large roll-over of early debt (at low rates) into current issues at current rates could increase interest costs. If it is assumed that the days of 4-5% bonds are over, interest expenses could conceivably increase for a long time. Table 4-7 illustrates the estimated magnitude of the annual interest and principal costs of the funded debt outstanding at May 31, 1976 for each of the years 1976 to 1980. These costs will absorb a relatively significant percentage of future municipal budgets. In addition, any further borrowing (and this is certain to take place) will increase the annual cost of servicing the debt.

Table 4-7

Debt Service on Funded Debt for the Metropolitan Corporation, Metropolitan Toronto School Board, Area Municipalities, and Municipal Utilities

	Interest		Principal		Total
	Total Interest Payable (000)	Interest as a % of Total Debt Service %	Total Principal Payable (000)	Principal as a % of Total Debt Service %	(000)
1972	\$86,422	57.0	\$65,207	43.0	\$151,629
1973	91,093	58.4	64,881	41.6	155,974
1974	96,634	59.8	64,907	40.2	161,541
1975	103,314	61.5	64,602	38.5	167,916
1976 <sup>1</sup>	111,304	63.7	63,435	36.3	174,739
1977 <sup>2</sup>	106,747	61.3	67,330	38.7	174,077
1978 <sup>2</sup>	88,040	56.6	67,374	43.4	155,414
1979 <sup>2</sup>	88,040	56.6	67,374	43.4	155,414
1980 <sup>2</sup>	88,040	56.6	67,374	43.4	155,414

<sup>1</sup>Interest payments include full interest payable on all unmatured debentures including debentures purchased as investments and held in sinking funds. Principal payments include repayments of serial debentures and annual deposits for sinking fund debentures which with interest capitalized yearly thereon will be sufficient to repay such sinking fund debentures when due. Total principal payments are therefore less than outstanding debt maturities.

<sup>2</sup>Estimates are based on funded debt outstanding at May 31, 1976.

Source: Information obtained from a prospectus on The Municipality of Metropolitan Toronto, Salomon Brothers, Dominion Securities Harris & Partners Inc., Wood Gundy Incorporated, June 30, 1976.

Table 4-8

Interest Rates Paid on Direct Debenture Debt  
of the Metropolitan Corporation By Year  
of Issuance of Debt

---

Year Debentures Issued	Interest Rate (%) (Payable in Canadian Funds)
1954	3 1/2
1955	3 3/4
1956	4 1/2
1957	5
1958	4 3/4
1959	5 1/4 to 6
1960	5 3/4 to 5 3/8
1961	5 1/4 to 5 1/2
1962	5 to 5 1/2
1963	5 to 5 1/4
1964	5 1/2
1965	5 1/4 to 5 3/4
1966	6 to 6 1/4
1967	6 to 7
1968	7 to 7 1/4
1969	7 3/4 to 8 3/4
1970	8 3/4 to 9 1/4
1971	7 to 8
1972	7 1/4 to 8 3/8
1973	7 1/4 to 8 3/8
1974	8 1/2 to 10 3/8
1975	8 3/4 to 10 1/4

Source: Information obtained from a prospectus on  
The Municipality of Metropolitan Toronto,  
Salomon Brothers, Dominion Securities  
Harris & Partners Inc., Wood Gundy Incorporated,  
June 30, 1976.

## CHAPTER 5

### FUTURE EXPENDITURES

#### A. Elasticity of Local Spending

Several studies<sup>34</sup> have used an 'elasticity of local expenditure' coefficient as an indication of possible future expenditure trends. Public expenditures are said "to be 'income-elastic' if they increase more than proportionately in association with a given increase in national income; that is, for some time period, the rate of growth of government expenditures is relatively faster than the growth of national income."<sup>35</sup>

It has generally been found that local governmental expenditures are quite income-elastic, having elasticity coefficients well in excess of 1.0.

However, the elasticity coefficient for Metropolitan Toronto and the area municipalities for the years from 1968 to 1974 was only .72, indicating that municipal public expenditure did not increase as rapidly as did gross national product. If the elasticity coefficient had been 1, then a one per cent increase in GNP would have been matched by a one per cent increase in local public expenditures. The elasticity of local expenditures in Metro from 1968 to 1974 was less than 1 for all years but 1970, when it was 1.89.

It may be that local expenditures have been restrained to some extent in the past few years, by the limitations imposed by a revenue base, financed mainly by the property tax, which has not kept pace with growth in personal or household incomes.

When these findings are extrapolated to the future, it can be suggested that percentage increases in municipalities will be somewhat less than percentage increases in national income as measured by the Gross National Product.

#### B. Projected Current Expenditures for 1980

Because of the number of factors which lead to changes in expenditure levels, expenditure projection is far from a science. The present analysis bases projections

---

<sup>34</sup> See Richard M. Bird, The Growth of Government Spending in Canada, Toronto: Canadian Tax Foundation, 1970 for a review of the concept and of the literature and A.W. Steiss, Local Government Finance, Toronto: Lexington Books, 1975, for an explanation of method of calculation.

<sup>35</sup> R.M. Bird, op. cit., p. 89.



of future expenditure on extrapolations from past municipal expenditure trends.

It was decided to project expenditures in constant dollars rather than in current dollars, since the constant dollar expenditure functions more closely approximated linear relationships in the past.<sup>36</sup> On the other hand, the current dollar expenditure functions generally approximated curvilinear relationships and would be more difficult to predict.<sup>37</sup>

The elasticity coefficient for each expenditure function in each municipality and for the total expenditures for each function and each municipality, in constant dollars, was calculated by examining its rate of growth from 1968 to 1974 in relation to the growth in constant dollar GNP. (See Appendix H)

Expenditure functions which grew at a more rapid rate than G.N.P. were protection with an elasticity of 1.61 (for each one per cent increase in G.N.P., expenditure for protection would increase by 1.61 per cent); health, social and family services (elasticity of 1.29); recreation and community services (1.64); and community planning (1.86). Scarborough was the only municipality with a total expenditure elasticity greater than one (1.31). The past rapid growth rate of these above expenditures can be emphasized by pointing out that the elasticity for total constant dollar expenditures for all municipalities together was only .64 over the same time period.

Most projections of G.N.P. for 1980 have predicted an annual growth rate of approximately 5 per cent per year.<sup>38</sup> On the basis of this assumption, the percentage

---

<sup>36</sup> The two functions which are obviously exceptions to this assumption are public works and financial expenses. Public works expenditure, in constant dollars, however, appears to approximate a linear relationship after 1972 when Metro took over responsibility for the Toronto Transit Commission's operating deficits. The projection for financial expenses, although probably imprecise due to the erratic nature of the function, was also made on the basis of a linear relationship. Since they are a relatively insignificant portion of expenditures, this would not affect the overall analysis.

<sup>37</sup> A further and significant advantage of projecting expenditures in constant dollars is that one can avoid the problem of projecting inflationary increases which appear, at best, to be highly uncertain for the next few years.

<sup>38</sup> See H.I. MacDonald's article, "Long-Term Perspectives for Canada," in The Canadian Business Review, Vol. 1, No. 1, 1974, pp. 12-15.

change in G.N.P. from 1974 to 1980 would be 34 per cent. By using this projection and the elasticity coefficient for each expenditure, the expected percentage increase in each expenditure for 1980 was calculated. This figure was then used to estimate the constant dollar expenditure for each function in each municipality in 1980.<sup>39</sup> (See Appendix H)

The actual constant dollar expenditures by municipality from 1968 to 1974 and the estimates for each municipality for 1980 may be seen in Figure 5-1. Total expenditures for the Metro system, in constant dollars, are projected to increase by 25.5 per cent from 1974 to 1980. By far the greatest share of this increase will be due to Metro's own expenditures which are projected to increase by 26.5 per cent from 1974 to 1980.<sup>40</sup> Municipalities whose total constant dollar expenditures are projected to increase more rapidly than the total between 1974 and 1980 are Etobicoke (26.2 per cent), North York (26.9 per cent) and Scarborough (44.5 per cent).

Municipalities with projected constant dollar expenditure growth rates less than the total are Toronto (13.9 per cent), East York (3.4 per cent) and York (19.4 per cent).

The actual constant dollar expenditures by function from 1968 to 1974 and the estimates for each function for 1980 are presented in Figure 5-2. Graphs illustrating the expenditure projections for each function by municipality are in Appendix I.

Total real expenditure<sup>41</sup> for general government is expected to increase by 12.6 per cent from 1974 to 1980. More rapid real expenditure growth for this function is projected for Etobicoke (48.3 per cent), North York (69.4

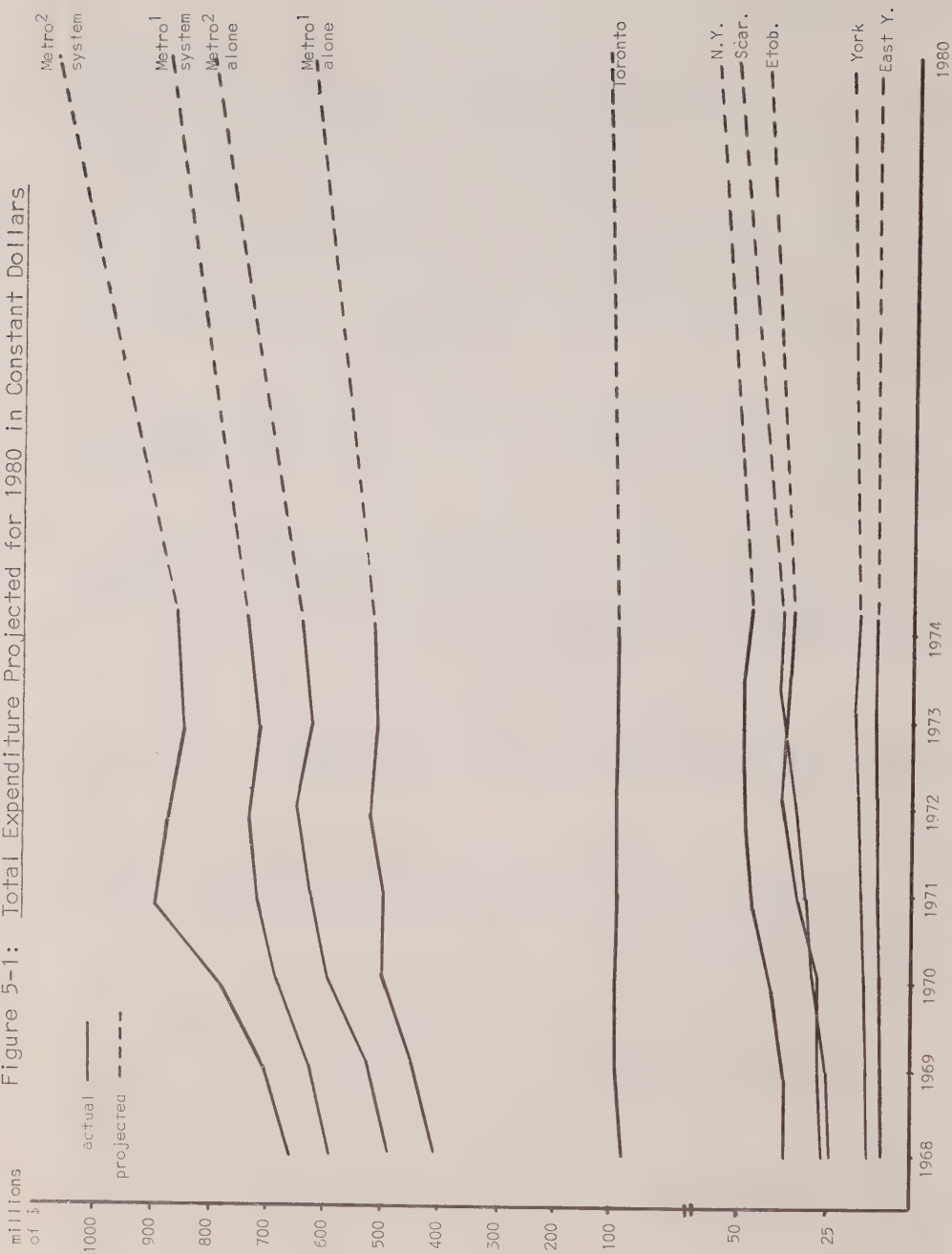
---

<sup>39</sup>Total expenditure rather than per capita expenditure was estimated since per capita expenditure would not take into account projected growth in expenditures due to volume of service.

<sup>40</sup>When one excludes the provincial grant for education (i.e. when one includes only expenditures from own source revenue), the Metro system's expenditures are expected to increase by 21.8 per cent. Expenditures of Metro alone are expected to increase by 21.8 per cent as well. Figure 5-1 illustrates the total expenditures including the provincial grant for education. This is denoted by Metro<sup>2</sup>. Metro<sup>1</sup> denotes total expenditures from all revenue except for the provincial grant for education.

<sup>41</sup>The term "real" expenditure refers to the level of expenditure in constant dollars, i.e. it excludes the expenditures attributed to price increases alone.

Figure 5-1: Total Expenditure Projected for 1980 in Constant Dollars



Metro<sup>1</sup> - Excludes the provincial grant for education in total expenditures.

Metro<sup>2</sup> - Includes the provincial grant for education in total expenditures.





per cent) and Scarborough (53.4 per cent). Less rapid real expenditure growth is expected in Toronto (13.9 per cent), East York (12.6 per cent) and York (18.7 per cent). Expenditures for general government in Metro alone are expected to decline by 25.8 per cent in constant dollar terms.

Real expenditure for protection in the Metro system is projected to increase by 54.7 per cent, again largely as a result of Metro's expenditures (alone), which are expected to increase in real terms by 71.1 per cent from 1974 to 1980. North York's constant dollar expenditures for protection are expected to increase by 60 per cent, Scarborough's by 45.2 per cent, Etobicoke's by 38.4 per cent, York's by 37.4 per cent, East York's by 32.0 per cent and Toronto's by 25.8 per cent.

Public works expenditure by Metro (alone) is also expected to increase the most rapidly in real terms from 1974 to 1980, (46.2 per cent) and to account for the largest share of the total. All of the other municipalities are projected to experience real increases which are less than that projected for the total of the Metro system (27.9). The percentage increase expected for Scarborough from 1974 to 1980 is 24.8 per cent in real terms, 18.4 per cent for York, 10.9 per cent for North York, 9.2 per cent for Etobicoke, 2.4 per cent for Toronto, while East York is expected to experience a decline of 33 per cent.

Metro alone is also responsible for the largest share of expenditures for sanitation and its expenditures in this field are expected to increase the most rapidly. Its constant dollar expenditure for sanitation is expected to grow by 37.4 per cent from 1974 to 1980. All of the other municipalities but York, whose expenditures are projected to rise by 1.4 per cent, are expected to experience declines, in real terms, in their expenditures for sanitation.

Total real expenditure for health, social and family services in the Metro system is expected to increase by 43.9 per cent from 1974 to 1980. Increases in expenditure by Metro alone are again expected to be the greatest (50.7 per cent) and are expected to account for the largest share. The expected percentage increases in constant dollar expenditure on this function for the other municipalities are 35.0 (Scarborough), 16.0 (Toronto), 14.6 (East York), 13.3 (North York), 9.9 (York), and 9.2 (Etobicoke).

In recreation and community services, municipalities expected to have percentage increases above that of the total (55.8 per cent) in the Metro system are Scarborough (108.8 per cent); Metro alone (97.6 per cent); North York (87.0 per cent); and Etobicoke (64.9 per cent). Smaller percentage increases in real expenditure, for this function over the period from 1974 to 1980, will be experienced by Toronto (14.3 per cent); East York (14.3 per cent) and York (14.2 per cent).

Constant dollar expenditure for community planning is expected to show large percentage increases in Scarborough (340.0 per cent), Metro alone (70.7 per cent) and Toronto (62.9 per cent), more moderate increases in Etobicoke (59.2 per cent), East York (35.4 per cent) and York (20.7 per cent), whereas in North York real expenditure is expected to decline by 25.8 per cent. Total real expenditure for community planning in the entire Metro system is expected to increase by 65.2 per cent from 1974 to 1980.

Projections for real expenditures for education up to 1980 vary depending on whether the provincial grant for education is included in the estimates. If the provincial grant for education is excluded, an increase in educational expenditures of 2.04 per cent is projected. On the other hand, if the provincial grant for education is included, educational expenditures are expected to rise by 14.3 per cent. Provincial grants were of increasing importance in financing educational expenditures (see Figure 5-3) during this period.

#### C. Projected Current Dollar Expenditures

Projecting current dollar expenditures involves speculation as to what the rate of inflation will be for the next five years. Inflation rates for the past couple of years have been around 10 per cent; the AIB's efforts are aimed at producing a much lower rate; yet some economists speculate that inflation rates may be greater than 10 per cent.<sup>42</sup>

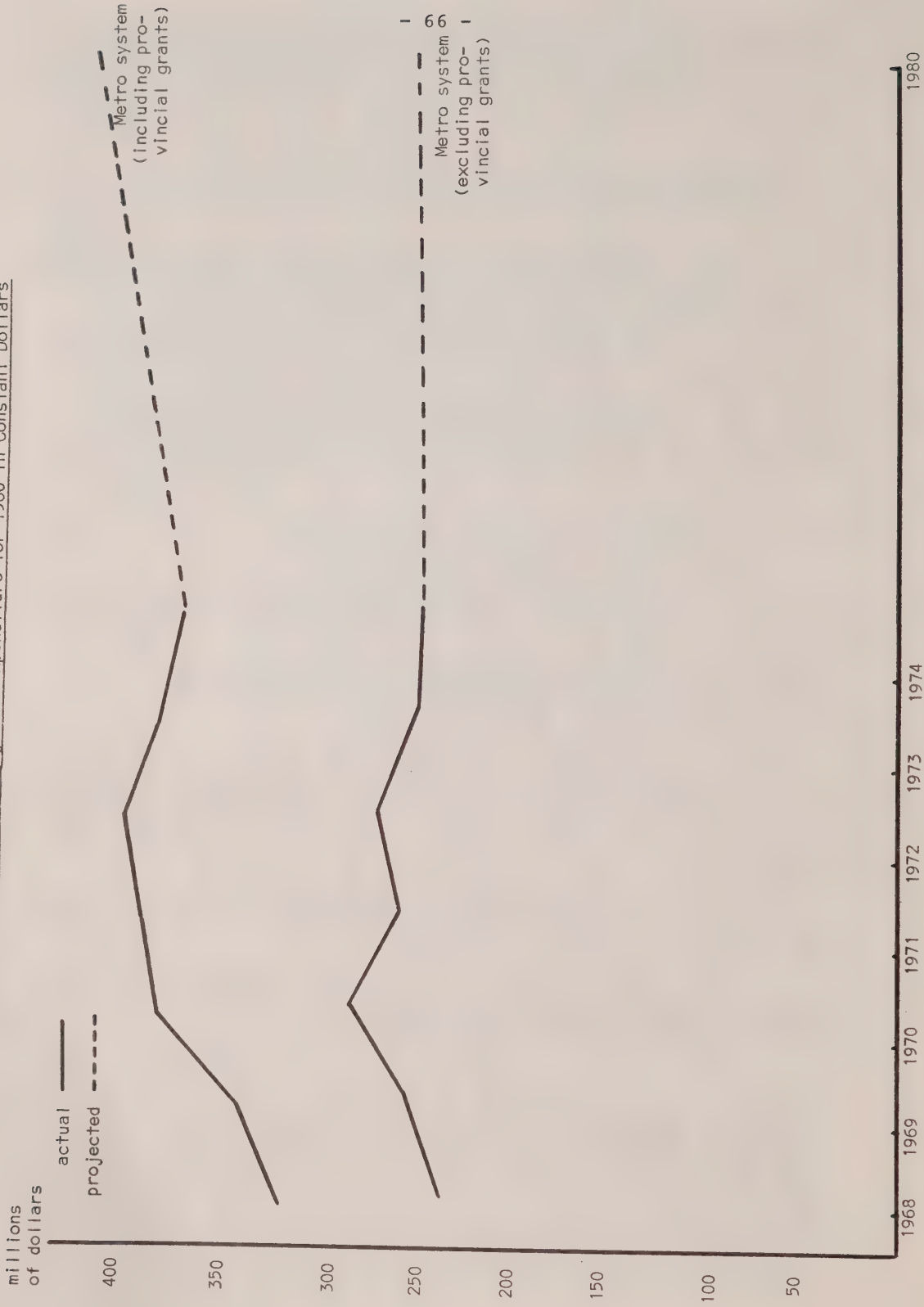
Therefore, it was decided to postulate annual inflation rates of 5, 10 and 15 per cent, and to calculate the current dollar projections based on each. The values were projected for each function, in each municipality, for each inflation rate, by increasing the 1980 constant dollar expenditures by factors of 1.788, 2.363 and 3.086 (which respectively represent inflation rates of 5, 10 and 15 per cent compounded from 1974 to 1980). The results are given in Appendix J.

The projected percentage increases in expenditure by function and by municipality are shown in Table 5-1 and are self-explanatory.

By 1980, expressed as a percentage of total expenditures, expenditures for protection will increase from 16.2 per cent in 1974 to 20.61 per cent in 1980; expenditures for public works will increase from 16.2 per cent in 1974 to 17.0 per cent in 1980; expenditures

<sup>42</sup>For example, see A. Barnes, "Galbraith Poses Return of Double Digit Inflation In U.S.," The Globe and Mail, Saturday, June 12, 1976, p. B12.

Figure 5-3: Education - Projected Expenditure for 1980 in Constant Dollars



for health, social and family services will increase from 11.4 per cent in 1974 to 13.9 per cent in 1980; recreation and community spending will increase from 8.6 per cent in 1974 to 11.0 per cent in 1980; and community planning expenditure will increase from 1.2 per cent in 1974 to 1.5 per cent in 1980.

The functions which are projected to decline as percentages of total expenditure from 1974 to 1980 are general government (from 4.3 to 4.0 per cent), sanitation (from 6.4 to 5.8 per cent), financial expenses (from 1.6 to 1.4 per cent) and education (from 33.6 to 28.1 per cent).

Table 5-1

Projected Percentage Increase in Expenditure  
from 1974 to 1980 by Function and by Municipality For  
Three Assumed Rates of Inflation

Function	5%	10%	15%	Municipality	5%	10%	15%
Gen. Gov't.	50.9	99.4	160.4	Metro Alone <sup>1</sup>	63.3	115.8	181.8
Protection	107.4	174.1	258.0	Metro Alone <sup>2</sup>	69.6	124.1	192.6
Public Works	71.4	126.5	195.8	Toronto	52.7	101.8	163.6
Sanitation	48.6	96.4	156.5	East York	38.6	83.2	139.2
Health, etc.	92.8	154.8	232.8	Etobicoke	69.1	123.5	191.9
Rec. & Comm.	108.8	175.9	260.3	North York	70.0	124.7	193.5
Comm. Plng.	118.8	189.2	277.7	Scarborough	93.7	156.0	234.4
Financial	47.2	94.6	154.1	York	60.0	111.5	176.2
Education <sup>1</sup>	36.8	80.8	136.1	Metro System <sup>1</sup>	63.2	115.7	181.7
Education <sup>2</sup>	65.2	102.4	164.4	Metro System <sup>2</sup>	68.2	122.3	190.3

<sup>1</sup>This includes the educational expenditure financed from own source revenue. It does not reflect expenditures out of the provincial grant for education.

<sup>2</sup>This includes the provincial grant for education.

Source: Calculated from data supplied in Appendix H.



#### D. Projected Capital Expenditure

More precise projections of capital expenditures are possible because of the Five Year Capital Works Programme published by the Municipality of Metropolitan Toronto in 1976. Table 5-2 lists the projected gross capital expenditures for the area municipalities, for Metro alone and for the Metro system. By far the largest percentage of capital expenditures are expected to occur at the Metro level. In 1976, it was expected that capital expenditures by Metro would exceed those of the area municipalities by a factor of 2.27. For 1977, 1978, 1979 and 1980, capital expenditures of Metro alone are expected to be respectively 3.25, 2.91, 2.84 and 2.80 times higher than those of the area municipalities (in total). During this same period, capital expenditures on public works by the Metro system (Table 5-3) are expected to absorb roughly 45% of total capital expenditures in each year and for the total of the five year period. Of these expenditures on public works, over 50% will be on rapid transit. Capital expenditures on sanitation are expected to absorb roughly 20 per cent of the total annual budget over the five year period, about 70 per cent of which will be spent on the sanitary sewer system. Table 5-3 illustrates the estimated total capital expenditures for the remaining functions.

Table 5-4 provides an estimate of the funds which will be necessary to meet future capital expenditures in the Metro system. Clearly the most important source of funds will be Metro debentures. Over the five year period, they will provide funds for roughly 55 per cent of total capital expenditures. The second most important source will be contributions from other governments, which are expected to yield almost 35 per cent (slightly more than 87 per cent of this will come from the Ontario government). The remainder of the necessary funds will come from the revenue fund (9.3 per cent over the five year period), reserve funds and revenues (1.5 per cent) and 'other' category (.1 per cent).

Table 5-2

Projected Gross Expenditures on Capital Works Projects 1976 to 1980

(000)

Function	1976		1977		1978		1979		1980	
	Area Muni- cipalities \$	Metro alone \$	Area Muni- cipalities \$	Metro alone \$	Area Muni- cipalities \$	Metro alone \$	Area Muni- cipalities \$	Metro alone \$	Area Muni- cipalities \$	Metro alone \$
General Government	13,751	-	4,855	-	810	810	-	-	-	-
Protection	2,146	9,452	2,435	9,013	3,080	7,762	2,385	4,531	2,333	4,450
Public Works	59,853	139,980	53,075	152,810	50,131	180,883	42,036	120,700	42,493	112,750
Sanitation	9,312	58,290	12,044	93,708	10,394	85,674	10,514	65,813	7,774	58,822
Health, Social & Family Serv	1,000	7,234	1,000	14,528	1,000	10,777	-	7,909	-	7,611
Recreation & Community Serv.	24,866	24,665	15,735	21,650	14,274	22,184	14,265	7,540	10,528	2,800
Community Planning & Dev.	2,206	962	2,690	475	2,641	3,016	2,804	285	2,050	-
Education <sup>1</sup>	-	-	-	-	-	48,794	-	-	-	-
Municipal Enterprises <sup>2</sup>	9,402	36,975	12,024	45,500	7,945	42,010	9,145	23,340	5,595	11,380
TOTAL <sup>3</sup>	122,536	277,558	103,856	337,684	90,275	401,910	8,149	230,118	70,773	197,813
										512,842

<sup>1</sup>Capital requirements as estimated by the Metropolitan Toronto School Board.

<sup>2</sup>Includes Hydro-electric system, Water Supply, and the Parking Authority.

<sup>3</sup>The difference in projected capital expenditures between the sum of the area municipalities and Metro is different from the total and this difference is due to capital expenditures on education.

Table 5-3

Estimated Percentage of Metro System Capital Expenditures Absorbed by Each Function for Each Year and for the Total of Five Years

Function	1976	1977	1978	1979	1980	Total 1976-1980 <sup>1</sup>
General Government	3.3	1.0	.2	-	-	1.0
Protection	2.8	2.3	1.9	1.9	2.2	2.2
Public Works	46.3	41.4	44.0	45.2	49.6	45.4
Sanitation	16.1	21.3	21.3	21.2	21.3	20.2
Health, Social & Family Serv.	2.0	3.1	2.7	2.2	2.4	2.8
Recreation & Community Serv.	11.8	7.5	5.5	6.1	4.3	7.2
Community Planning & Dev.	.8	.6	.8	.9	.7	.7
Education	4.9	11.2	12.1	13.6	14.1	11.0
Municipal Enterprises	11.0	11.6	10.5	9.0	5.4	9.8
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

<sup>1</sup>This reflects the total expenditures on each function over the five years as a per cent of total expenditures over the five years.

Source: Data obtained from the Five Year Capital Works Programme, published by The Municipality of Metropolitan Toronto, Toronto, 1976.

Table 5-4

Financing of Estimated Expenditures on Capital Works Programmes for the Metro System  
(including education)

	1976		1977		1978		1979		1980		Total 1976-1980	
	\$(000)	%	\$(000)	%	\$(000)	%	\$(000)	%	\$(000)	%	\$(000)	%
Debentures												
- public offering <sup>1</sup>	180,575	42.9	215,402	43.3	170,537	42.4	148,440	41.2	111,563	35.7	826,517	41.5
- other <sup>2</sup>	33,178	7.9	75,153	15.1	57,648	14.3	51,618	14.3	44,192	14.1	261,789	13.1
- Total	213,753	50.8	290,555	58.4	228,185	56.7	200,058	55.5	155,755	49.8	1,088,306	54.6
Contributions from												
- other governments <sup>3</sup>	148,025	35.2	162,348	32.6	139,202	34.6	123,465	34.3	113,876	36.4	686,916	34.5
- revenue fund	47,020	11.2	36,439	7.3	29,972	7.5	32,716	9.1	39,386	12.6	185,533	9.3
- reserve funds and reserves	11,421	2.7	6,669	1.3	3,990	1.0	3,690	1.0	3,690	1.2	29,460	1.5
Other <sup>4</sup>	385	.1	1,453	.3	561	.1	380	.1	135	.0	2,914	.1
TOTAL	420,604	100.0	497,464	100.0	401,910	100.0	360,309	100.0	312,842	100.0	1,993,129	100.0

<sup>1</sup>This includes the debentures of Metro alone, the area municipalities and the municipal enterprises which are expected to be sold to the public.

<sup>2</sup>This includes the debentures sold to C.M.H.C. (Water Pollution Control Projects) Winter Capital Projects Fund, and the Ontario Education Capital Aid Corporation (Metropolitan Toronto School Board).

<sup>3</sup>Includes Canada, Ontario (by far the largest percentage is expected to come from this source) and a very small percentage from other governments.

<sup>4</sup>Includes subsidies fees, railway grade crossing fund, utilities, etc.

Source: Five Year Capital Works Programme, published by The Municipality of Metropolitan Toronto, Toronto, 1976, pp. 43-48.



## CHAPTER 6

### FINANCIAL MANAGEMENT

The preceding analysis of the impact of inflation and future service needs on the level of expenditure gives some indication of future trends in expenditure. But these trends will depend to a degree on three further factors, namely the budgetary process, the relationship of special purpose bodies to municipal councils and the intergovernmental problems associated with the decision-making structure.

#### i) The Budgetary Process

A detailed review of the mechanics of the budgetary process at both the Metro and the borough level is beyond the scope of this study. But it may be helpful to provide a critical assessment of the current budgetary process regardless of whether it exists at the Metro level or the level of the individual municipalities.

First, in all cases, the budgets are separated into current and capital expenditures. Current expenditures are established yearly and only for that year.<sup>43</sup> The obvious disadvantage of such an approach is that it impedes rational long-term planning of municipal expenditures. The minimum change which one might expect here would be a movement to a two-year budget cycle. This is apparently the situation in the City of Ottawa and it is generally felt that planning for future expenditures, particularly by the borough councils, could be facilitated by such a move. Indeed, municipal administrators would probably favour a longer time horizon than two years although the present term of municipal office may militate against such a move.

On the other hand, budgets for capital expenditures are established on a five-year basis and are subject to annual review. Many criticisms have been levied against the process of capital budgeting because of the strict requirements of the Ontario Municipal Board.<sup>44</sup>

<sup>43</sup> The exception is Metro which has recently moved to a two year budget cycle.

<sup>44</sup> Section sixty-four of the Ontario Municipal Board Act provides that a municipality shall not authorize, proceed with or provide money for "any undertaking, work, project, scheme, act, matter or thing" where the cost or any portion of the cost is to be raised in subsequent years or provided for by debentures "until the approval of the Board has been first obtained." It is significant that under this section the Board is not only required to approve the expenditure, but also to approve the proposed project.

These requirements impose many constraints on a municipality's freedom of action. Furthermore they involve considerable duplication of effort on the part of municipal officials and make the capital budgetary process a time-consuming one.<sup>45</sup> However, the present system is not without advantages. For example, the total amount of a municipality's borrowing is controlled and reviewed annually; municipal borrowing is permitted only for capital expenditures; and the term of each loan is for no longer period than the expected life of the project which it is intended to finance.

While there are strong arguments in favour of a streamlined approach to capital budgeting, it is important to note that for internal budgetary control purposes the traditional distinction between current and capital expenditures could be dropped. A more useful approach for efficiency in management would be to deal with a budget on a "cash-flow" basis. The advantage of such an approach is that it allows municipal officials and councillors to ascertain quickly the yearly cash requirements necessary to meet the annual total expenditures regardless of whether these expenditures are for operating or capital programs or projects.<sup>46</sup>

A further problem aggravating the municipal accounting system arises from the fact that municipalities are required to prepare a number of different budgets. In effect they take their revenue and expenditure figures and manipulate them in different ways. For example, municipalities are required to prepare one budget for Statistics Canada for incorporation in its publication entitled Local Government Finance. A further budget is prepared under different guidelines for submission to the Ontario government, the figures of which are made available in the publication entitled Municipal Financial Information. Finally, a third budget (which may be based on departmental rather than functional patterns) is frequently prepared for internal use. Obviously, then, such a proliferation of budgets results in an inefficient allocation of time.

Third, one of the basic problems with budget-making machinery revolves around the traditional approach which is frequently taken by municipal administration. Programs are set up, budgets are established and once established, expenditures are seldom questioned. Unfortunately, "incremental budgeting" seems to be the norm.

---

<sup>45</sup> For a detailed analysis of the various stages of capital budgeting and some possible suggestions for improvement, see MaKuch, S. and Jaffary, K., Local Decision-Making and Administration in Metropolitan Toronto, The Royal Commission on Metropolitan Toronto, Toronto, 1977.

<sup>46</sup> Metro is working towards this objective.

Prior years' expenditures, plus a certain percentage increase, tend to provide the basis for the budgetary allocation in subsequent years.<sup>47</sup> Indeed, at the Metro level the Departmental estimates are sent to the Treasury Department which consolidates the estimates and prepares summaries. Under the present system, the Treasury Department's primary function is to estimate the resulting total demand for revenue, indicate anticipated non-tax revenues, project the expected increase in assessment and determine the impact of expenditure proposals on the mill rate.<sup>48</sup> The defects of such an approach appear obvious. The establishment of a body comparable to the Treasury Board at the federal level could provide some form of inter-departmental co-ordination or rationalization of demands made by departments and attempt to establish priorities on an inter-departmental level, something which is not currently done.<sup>49</sup> At the moment, if budget requests must be reduced, cuts may be made according to the personality or political influence of the department head. The choice may be a function of the ability of an administrator to protect his position and not a function of what the electorate might choose. Also, budgets are frequently presented in a rather confusing and complicated fashion. Politicians are sometimes unable to grasp the necessary detail given the existing method of presenting budgets and hence are at the mercy of the administrators. The practice of using the budget as an instrument of overall financial control and the municipal treasurer to assist council in exercising that control is just beginning to emerge. For example, greater emphasis has begun and should continue to be placed on long range fiscal impact studies. The Chief Administrative Officer's Department of Metro Toronto has undertaken such studies but to our knowledge none of the other municipalities has followed suit.<sup>50</sup>

---

<sup>47</sup> For statistical evidence supporting this point, refer back to the previous sections analyzing the rates of increase in annual expenditure.

<sup>48</sup> Paul Paradis, "The Budgetary Process in the Municipality of Metropolitan Toronto," Section D of a brief submitted by D.C. Hefferon to the Royal Commission on Metropolitan Toronto, mimeograph, pp. 12-14.

<sup>49</sup> At the moment the Chief Administrative Officer in Metro and the municipal treasurers in the area municipalities attempt to provide some form of inter-departmental coordination or rationalization of programs although their success in this venture is not always obvious. In Metro specifically, the Chief Administrative Officer is developing the Treasury Board concept and to a degree it appears to be working.

<sup>50</sup> For detailed information on such studies, see J.P. Kruger's (Chief Administrative Officer of Metro) memos to the Budget Sub-Committee of Metro regarding the i) Fiscal Impact Study-Highland Creek Treatment Plant (Stage IV) \$2,300,000, dated June 17, 1976; ii) Fiscal Impact Summary - Main Sewage Treatment Plant Extension, (Stage III), dated June 9, 1976; iii) Fiscal Impact Summary (2.5 million), Communications/Dispatch System - Ambulance Services, dated June 18, 1976.



The obvious advantage of this form of economic planning is that it is concerned with the impact of certain expenditure patterns over the next few years rather than being merely concerned with their impact in the current or upcoming year. For example, a memo to the Metro Budget Sub-Committee from the Chief Administrative Officer concerning the proposed expenditure of \$2.3 million for Stage IV of the Highland Creek Treatment Plant pointed out that the initial \$2.3 million for consulting work would set in motion the ultimate expansion of the plant capacity at an estimated cost of some \$50.5 million and that in 1980, it would add \$4.1 million to the operating costs of the Works Department. These facts are important considerations to be taken into account before a decision to proceed is taken.

Obviously, then, in the interests of sound and rational planning, such studies are essential. Without such planning, the demand for local revenues in the future could reach unacceptable levels. In addition, greater use could be made of cost-benefit and cost-effectiveness studies of both capital and non-capital expenditure programs. These analyses should not be undertaken on a "one-shot" basis. Rather, each program or function should be reviewed and assessed regularly to determine its net value or net benefit. If it appears that certain programs are not yielding sufficient benefits to warrant the expenditures they require then it is incumbent on the local authorities to amend or dispense with them rather than maintain them indefinitely just because they are there.

Finally, Metro and one or two of the area municipalities have partially implemented a Planned-Program-Budgeting System (P.P.B.S.).

P.P.B. differs from the orthodox approach to budgeting, in that it is "output-oriented" rather than "input-oriented"; that is, it emphasizes the end-products or output of government operations rather than focussing only on the inputs or amount allocated to particular programs. More specifically, P.P.B. requires a government to identify its goals and objectives in each major area of activity, consider alternative ways of achieving these goals and the costs of each alternative, and select the method that achieves the goal at least cost. It thus helps to<sup>51</sup> improve the quality of decision-making...

Since the literature is replete with the advantages of P.P.B., let us merely concur with their arguments and strongly encourage the boroughs which have not adopted such an approach to consider it seriously in the near future.

---

<sup>51</sup>A.J. Robinson, Economic Evaluation of Municipal Expenditures: PPB, Toronto: Canadian Tax Foundation, Ontario, 1971, p.iii.



ii) Intergovernmental Problems

Even if the problems as outlined in the above section could be removed, there would still remain a number of problems associated with the structure of decision-making as it currently exists. In addition to the factors contributing to the escalating expenditures in the Metro system outlined above, expenditures tended to increase for a number of other reasons, some of which were beyond the control of Metro or the various municipalities. Occasionally, projects are started under the influence and financial support of the federal or provincial governments. Guidelines are established, commitments made and once operating, the senior level of government responsible for instigating the project either withdraws or substantially reduces the percentage of the costs which it is prepared to pay. In such instances, the municipality often is left with the responsibility of financially supporting or operating the project, even though it may have had relatively little to do with initiating it. The original cost to Metro or its area municipalities may have been minimal, but in the longer term it sometimes becomes locked into a significant financial commitment.

For example, until 1971, the provincial government contributed 25% of the costs of capital projects for public transit systems and 50% towards the capital costs relating to roads. Then in 1971, the government increased its support of transit projects to 75% and in addition agreed to pay 50% of the transit system's operating deficits. As a result, Metro substantially expanded its transit facilities. However, in 1975, the province placed a ceiling on the amount it would contribute to the system's operating deficits. Then in 1976, the province decided it would pay only 5% more than it had in 1975, leaving Metro to pay the remainder. At a time when operating costs were rising much more than 5% annually, Metro was faced with a significant increase in expenditures over which it had little or no control.

Similar financial problems have arisen with respect to the provision of day care. The province and Metro fund it on an 80/20 basis. The demand for day care was substantial and the level of provincial assistance in the field was relatively high. Consequently, Metro expanded its day care program considerably. Then in 1976, the province decided to contribute only 5.5% more towards the costs of operating day care centres than in the previous year. Once again, Metro was locked into escalating expenditures over which it seemed to have minimal control.

In addition, by expanding a program, a set of expectations are created which do not tend to diminish when funding support is reduced. Furthermore, some of these programs are mandatory and it would be impossible to eliminate them in an attempt to cut expenditures.

The examples cited above illustrate the way in which a local municipality's expenditures can be skewed by changes in the external funding support. Two possible solutions to this problem might be explored. First, a commitment could be made to ensure that a municipal government will not be saddled with a long-term responsibility for specific programs unless it is already aware of the future financial implications of such programs and agrees to them. Second, and alternatively, a revenue or grant commitment could be established to finance the necessary long-term expenditures.

iii) Boards, Commissions and Special Purpose Bodies

Numerous boards, commissions and special purpose bodies currently exist in Metropolitan Toronto which perform a wide range of functions. Many of these bodies enjoy relative financial independence. The effect of this proliferation of decision-making bodies has been to "create a diffuseness of municipal organization that is inevitably more difficult for the citizen to understand, much less to control."<sup>52</sup>

There are many arguments both for and against special purpose boards and commissions and it is not our intention to review them here. Instead, we will concentrate on their financial impact on municipal government. A serious problem arises when a municipality is funding bodies like the Board of Commissioners of Police of Metropolitan Toronto or the Metropolitan Toronto School Board, over which it has no control. From a financial point of view, this arrangement may lead to greater demands upon the municipal treasury than is desirable or encourage undesirable cost cutting in areas where the councils do have effective controls. "Because the municipal council cannot, in many cases, interfere with the policy decisions of an independent board or commission, it is denied the most effective means of exercising proper and effective budgetary control."<sup>53</sup> Consequently, financial decisions are not undertaken in a manner which is responsible and accountable to the citizens of the community. In fact, an examination of the net expenditures of Metropolitan Toronto on special purpose bodies for each of the years 1968, 1971, 1974 indicated that these expenditures amounted to approximately 60% of the total net expenditures made by Metropolitan Toronto from its own sources of revenue.<sup>54</sup>

<sup>52</sup> T.J. Plunkett, Urban Canada and its Government: A Study of Municipal Organization, Toronto: Macmillan, 1968, p. 60.

<sup>53</sup> See T.J. Plunkett, op.cit., p. 62.

<sup>54</sup> These figures were calculated from the Annual Report of the Commissioner of Finance for Metropolitan Toronto for each of the years 1968, 1971, 1974. The actual percentages were 60% for 1968, 59% for 1971, and 62% for 1974.

While it was virtually impossible to obtain detailed data, a cursory review of the figures for each of the boroughs and the City of Toronto indicated that a lower, although not an insignificant, percentage of total expenditures were distributed to local boards, commissions and special purpose bodies.<sup>55</sup> While the extent of effective control which councils have over the expenditures of special purpose bodies varies with the type of body, often it is not great. When this is combined with the expenditures to which a municipality is committed.

The important question which arises is whether expenditures on these agencies could be handled more efficiently if these bodies were placed under the direct control of municipal councils. Much has been written on this and it appears that the abolition of virtually all boards and commissions would be highly desirable. Their functions and programs could be carried out by or subject to the direction of municipal councils. Such a move would eliminate the current morass of local government organizations. It would produce a stronger council directly responsible for all municipal functions. It would improve the coordination of all municipal services and functions (at present the policies of these bodies sometimes runs counter to the policies of local councils). Finally, it could provide central budgeting control and long range financial planning. The present system makes it mandatory in some cases for a council to raise taxes for expenditures over which it has no control. This sometimes leads to conflicts between a particular body seeking to promote its special function and a municipality attempting to keep down its tax rate. In our view, council should be solely responsible for making the trade-offs between various programs.

In short, it is our recommendation that the function and role of all boards and commissions should be seriously reviewed with the objective of eliminating these agencies unless an extremely strong case can be made for their retention. Such elimination would lead to greater political control, financial accountability, and efficiency of operation.

---

<sup>55</sup> This figure tended to be in the order of 12% of total expenditures in each of the area municipalities. This may not be surprising in that many of the large boards are affiliated with or responsible to Metro Toronto.



## CHAPTER 7

### SUMMARY OF EXPENDITURE ANALYSIS

The analysis of current expenditures by function illustrated a number of shifts which have taken place. These shifts reflect the trend towards allocating a greater amount of the total budget to 'soft' services and a lesser amount to 'hard' services. Thus, current expenditure functions which have as a percentage of total municipal expenditures include protection, health, social and family services and recreation and community services.

Between 1968 and 1974, total per household expenditures for the Metro system increased by 33 per cent with York's per household expenditure increasing the most (45.3 per cent) and North York's increasing the least (28.6 per cent). At the same time, rapid increases in capital expenditures occurred in rapid transit and sanitation. Capital expenditures on public works, as a percentage of total expenditure, declined substantially although continuing to represent the greatest absolute amount.

While many factors may be responsible for the rising expenditures which have taken place, the analysis assessed the relative impact of the three main factors: inflation, the increase in the volume of service and the increase in the level of service.<sup>56</sup> The increase due to inflation in the area municipalities ranged from 49.4 per cent to 89.5 per cent. Volume of service accounted for an increase of 15.1 per cent to 115.4 per cent depending on the specific municipality. The level of service tended to be much less significant in its impact, ranging from a decrease of 73.8 per cent to an increase of 19.9 per cent. When viewed in terms of total expenditure by function for the Metro system, inflation, once again, had the greatest impact (between 43.9 per cent and 93.2 per cent depending on the specific expenditure function), the increase in the volume of service accounted for the next highest percentage (between 1.0 per cent and 86.9 per cent) and the level of services showed the lowest increase (from a decrease of 63.5 per cent to an increase of 45.2 per cent).

Although future trends in wages and interest rates are difficult to predict, they will play an important role in determining the increase in local government expenditures. This is particularly true with respect to wages. Indeed, the expenditure functions which have exhibited the highest rate of growth in the past have been labour intensive and it does not appear that this is likely to change in the near future.

---

<sup>56</sup> Factors such as wages, interest rates, cost of materials, etc. which may have contributed to increased expenditures are subsets of one of these factors.



Based on an earlier trend, it was estimated that total current expenditures of the Metro system would increase by 22 per cent in constant dollars from 1974 to 1980. Metro alone will account for the greatest portion of this increase, with Etobicoke, North York and Scarborough following with smaller but significant increases. The fastest growing functions in Metro alone are expected to be protection, public works (including transit), and social and family services.

Several problems were examined in the financial management section and a number of suggestions were made. Among them was the suggestion that more attention be devoted to the long-term financial impact of programs. It was also recommended that greater attention be given to programs initiated jointly by the municipal and provincial governments to avoid saddling the municipal government with unexpected and unwanted long-range financial commitments.

Finally, given their rather significant drain on local budgets, it was suggested that the function and role of all special purpose boards and commissions be seriously reviewed with a view to eliminating as many of them as possible.

PART III

R E V E N U E   A N A L Y S I S



## CHAPTER 8

### INTRODUCTION TO THE REVENUE ANALYSIS

Local governments in Canada derive all of their powers from provincial legislatures. As a result, municipalities can only levy taxes on those things set out in provincial statute or regulation and the hand that provides may also take away. For example, as a result of provincial legislation, all municipalities were required to vacate the personal and corporate income tax fields in 1947 leaving them with a narrower tax base. While the means of taxation are theoretically unlimited at the federal level, they become progressively more limited at the provincial and local levels. In fact, there is only one municipal tax of any significance: the real property tax.

In Chapter 9 of Part III of this study, we illustrate and analyze the relative importance of the various revenue sources in the Metro system and its constituent municipalities from 1968 to 1974. Chapter 10 attempts to evaluate the arguments in favour of and against the present revenue sources of local governments, more specifically, grants and the property tax. Chapter 11 is devoted to an evaluation of alternative revenue sources which might be considered for Metro. This analysis covers the arguments in favour of and against each of the revenue sources considered along with an estimate of the potential revenue yield from each.



## CHAPTER 9

### WHERE DOES THE REVENUE COME FROM?

#### A. Analysis of Revenue, 1968 to 1974 - An Overview

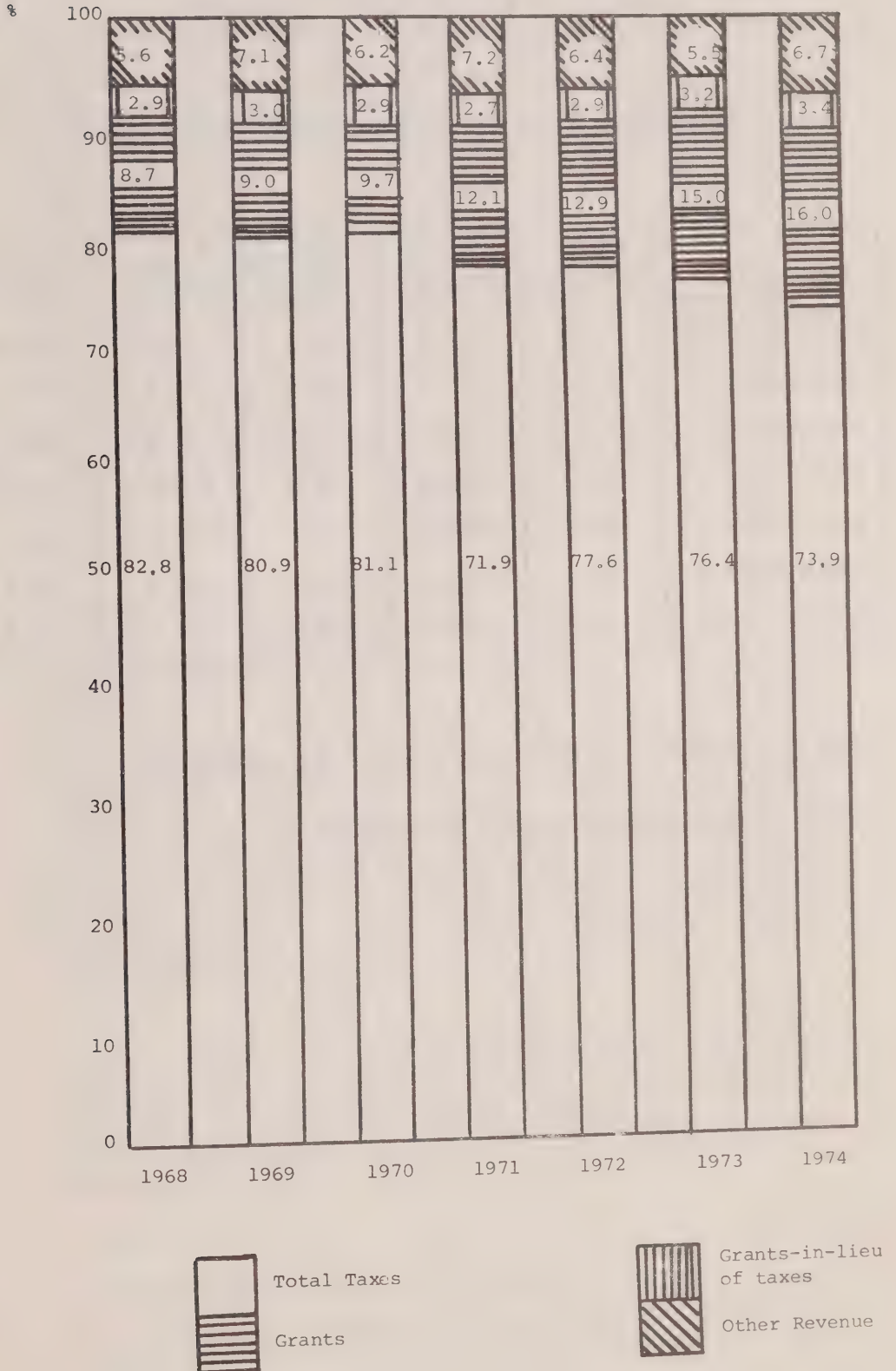
In Figure 9-1 the yields of each of the main revenue sources are shown as a percentage of the total revenue for the Metro system for the years 1968 to 1974. While the combined impact of taxes and grants<sup>1</sup> did not change to any great extent in terms of their overall importance, the relative importance of these two revenue sources changed noticeably. Taxes and grants together accounted for 91.5 per cent of total municipal revenue in 1968 and 89.9 per cent in 1974. However, taxes alone fell from 82.8 per cent in 1968 to 73.9 per cent in 1974, while grants rose from 8.7 per cent to 16.0 per cent over the same time period. Grants-in-lieu of taxes and other revenue (fees for licenses and permits; rents, concessions and franchises; fines, penalties and interest on taxes; income from investments, service charges and sundry revenues) represented a relatively constant percentage of total revenues from 1968 to 1974.

Although taxes in the Metro system declined in relative importance, they nevertheless increased by 49 per cent (Table 9-1) over the six year period. Of more significance is the fact that grants rose by 206 per cent. Table 9-1 illustrates the extreme variability in the increase in revenue coming from taxes and grants for each of the area municipalities from 1968 to 1974. For example, the increase in total tax revenue was the lowest in York (27.8 per cent) while the increase in total tax revenue was the highest in North York (69.2 per cent). Not surprisingly, the increase in grants illustrated the opposite result with York showing the greatest increase (462.6 per cent) and North York showing the lowest increase (58.5 per cent).

---

<sup>1</sup>The provincial grant for education is not included in the grant total in part A of this chapter so that the revenue analysis will be consistent with the expenditure analysis in Chapter 3, section B. For an analysis of revenues including the provincial grant for education, see Chapter 9, section B, which corresponds to the expenditure analysis in Chapter 3, section C.

Figure 9-1: Percentage of Revenue Obtained from  
Each Revenue Source for the Metro System  
(excluding provincial grant for education)



Source: Appendix K

Table 9-1

Percentage Increase in Revenues From 1968 to 1974

Municipality	Total Taxation	Grants <sup>1</sup>	Grants-in- lieu-of- Taxes	Other Revenues	Total Revenues
Toronto (City)	36.5	203.7	92.7	30.4	40.8
Etobicoke	54.3	174.8	48.1	74.9	57.3
Scarborough	66.9	375.9	191.5	219.0	85.0
York	27.8	462.6	30.0	113.9	41.6
East York	39.3	309.5	37.7	16.5	38.5
North York	69.2	58.5	98.1	122.9	71.9
Metro System	48.9	205.8	100.0	99.8	66.9

<sup>1</sup>Does not include the provincial grant for education.

Source: Calculated from data in Appendix K.

Table 9-2 illustrates the percentage of revenue obtained from all revenue sources for the area municipalities for each of the years 1968 and 1974. While a considerable degree of uniformity prevails here, there are two municipalities which do exhibit some change with respect to taxes and grants over this period. The percentage of total revenue coming from taxes in Scarborough and York has changed considerably. In 1968, these two municipalities obtained 90.0 per cent (Scarborough) and 92.6 per cent (York) of their total revenue from taxes. Whereas by 1974, these percentages had fallen to 81.2 and 83.6 percent respectively. All other municipalities hovered around the 88 to 90 per cent range for both years with very little, if any, change occurring. Similar comments can be made with respect to the percentage of total revenue coming from grants. Once again, Scarborough and York are the only two municipalities exhibiting noticeable changes, with Scarborough's percentage of total revenue coming from grants increasing from 2.5 per cent to 6.5 per cent and York's increasing from 2.4 to 9.3 per cent. All other area municipalities remained in the 2.3 per cent range for both years.

In turning to Metro alone, we observe relative changes which are very similar to those of the Metro system. For instance, the Metro general tax levy on the area municipalities as a percentage of its total revenue fell from 87.8 per cent in 1968 to 77.6 per cent in 1974. For the Metro system, total taxes fell from 82.8 per cent to 73.9 per cent of revenue. (Figure 9-1). Although the relative importance of tax revenue in Metro alone declined, total taxes actually rose by almost 49 per cent, almost the same as the total increase in taxes for the Metro system. Grants increased as a percentage of total revenue. They accounted for 10 per cent of total revenue in Metro alone in 1968 and 18.5 per cent in 1974. The overall increase in total grants to Metro alone was roughly 210 per cent (from \$41 million to \$127 million). These increases were for "...policing, general welfare assistance, public transportation and assistance to children."<sup>2</sup>

During the period studied, grants-in-lieu of taxes and other revenue<sup>3</sup> as a percentage of total revenues followed no observable pattern (see Tables 9-1 and 9-2). For the Metro system revenues from these sources represented 2.9 and 5.6 per cent respectively of total revenues in 1968 and 3.4 and 6.7 per cent respectively in 1974.

---

<sup>2</sup>Jarrett, Goold and Elliott, op.cit., p. 37.

<sup>3</sup>An analysis of grants-in-lieu of taxes and other revenue will not be undertaken in this study.



Table 9-2  
Percentage of Revenue Obtained from All Revenue Sources  
for the Area Municipalities for 1968 and 1974

Municipality	Total Taxation		Grants <sup>1</sup>		Grants-in-Lieu of Taxes		Other Revenue	
	1968	1974	1968	1974	1968	1974	1968	1974
Toronto (City)	90.0	87.3	1.4	3.0	4.0	5.5	4.6	4.2
Etobicoke	91.7	90.0	2.0	3.5	2.7	2.6	3.5	3.9
Scarborough	90.0	81.2	2.5	6.5	3.7	5.9	3.7	6.4
York	92.6	83.6	2.4	9.3	7.9	.7	4.2	6.4
East York	90.9	91.4	1.2	3.5	.9	.9	7.0	4.2
North York	89.7	88.3	3.6	3.3	2.2	2.6	4.5	5.8

<sup>1</sup>Does not include the provincial grant for education.

Source: Data obtained from Appendix K.

B. Analysis of Revenue 1968 to 1974 - Including the Provincial Grant for Education

Figure 9-2 shows the percentage of revenue obtained from all revenue sources for the Metro system when the provincial grant for education is included in the calculations. While the relative importance of each revenue source remained fairly constant from year to year, the importance of grants as a revenue source is predictably higher. For instance, grants accounted for 19.1 per cent of total revenue in 1968 and rose to 27.9 per cent in 1974. This compares with 8.7 per cent for grants in 1968 and 16.0 per cent for grants in 1974 when the provincial grant for education is excluded (see Figure 9-1). Taxes, with the inclusion of grants for education, fell from 73.4 per cent of total revenue in 1968 to 63.4 per cent in 1974. This compares with 82.8 per cent and 73.9 per cent respectively for the same two years when the educational grant is excluded. Similar comments can be made about the other revenue sources by comparing the figures in Figure 9-1 and 9-2.

C. Analysis of the Per Household Tax Levy

Table 9-3 and Figure 9-3 provide comparisons of per household total tax levies in the various municipalities. Etobicoke had the highest per household tax levy in 1968 (\$970.61) while York had the lowest (\$590.22), a difference of over 64 per cent. The average for the Metro system in that year was \$847.55. In 1974, Etobicoke still had the highest per household tax levy (\$1,182.39) while York remained the lowest (\$670.72). It is interesting to note that the difference between the two increased considerably (76 per cent). The average tax levy per household for the Metro system rose to \$1,002.80, an increase of roughly 18 per cent in the level of taxation over the seven year period. The rate of increase was rather modest over this time period and it followed a similar pattern in each of the area municipalities.

Figure 9-2: Percentage of Revenue Obtained from  
Each Revenue Source for the Metro System  
(including provincial grant for education)

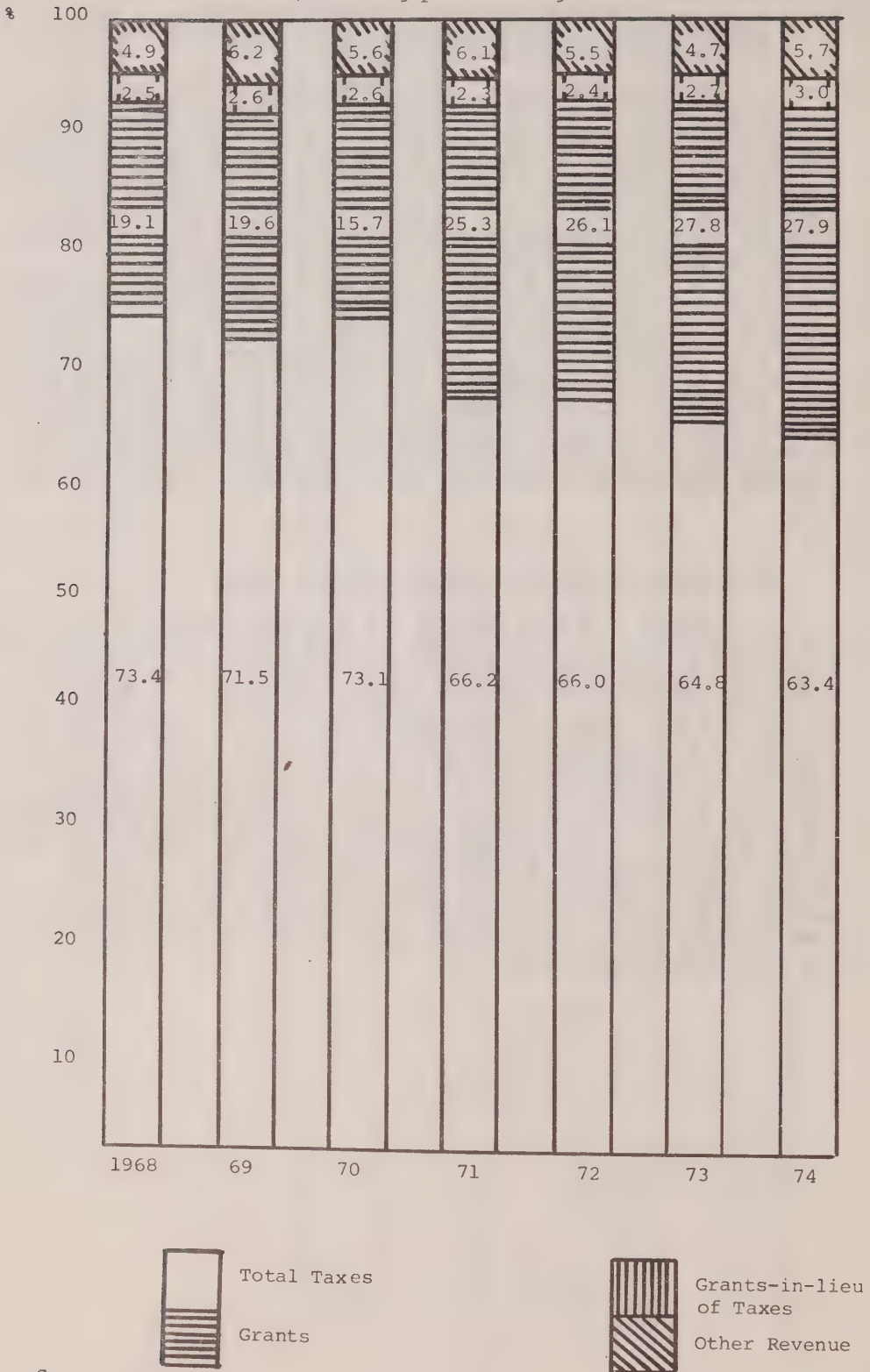


Table 9-3  
Per Household Total Tax Levy in the Area Municipalities  
and the Metro System 1968-1974

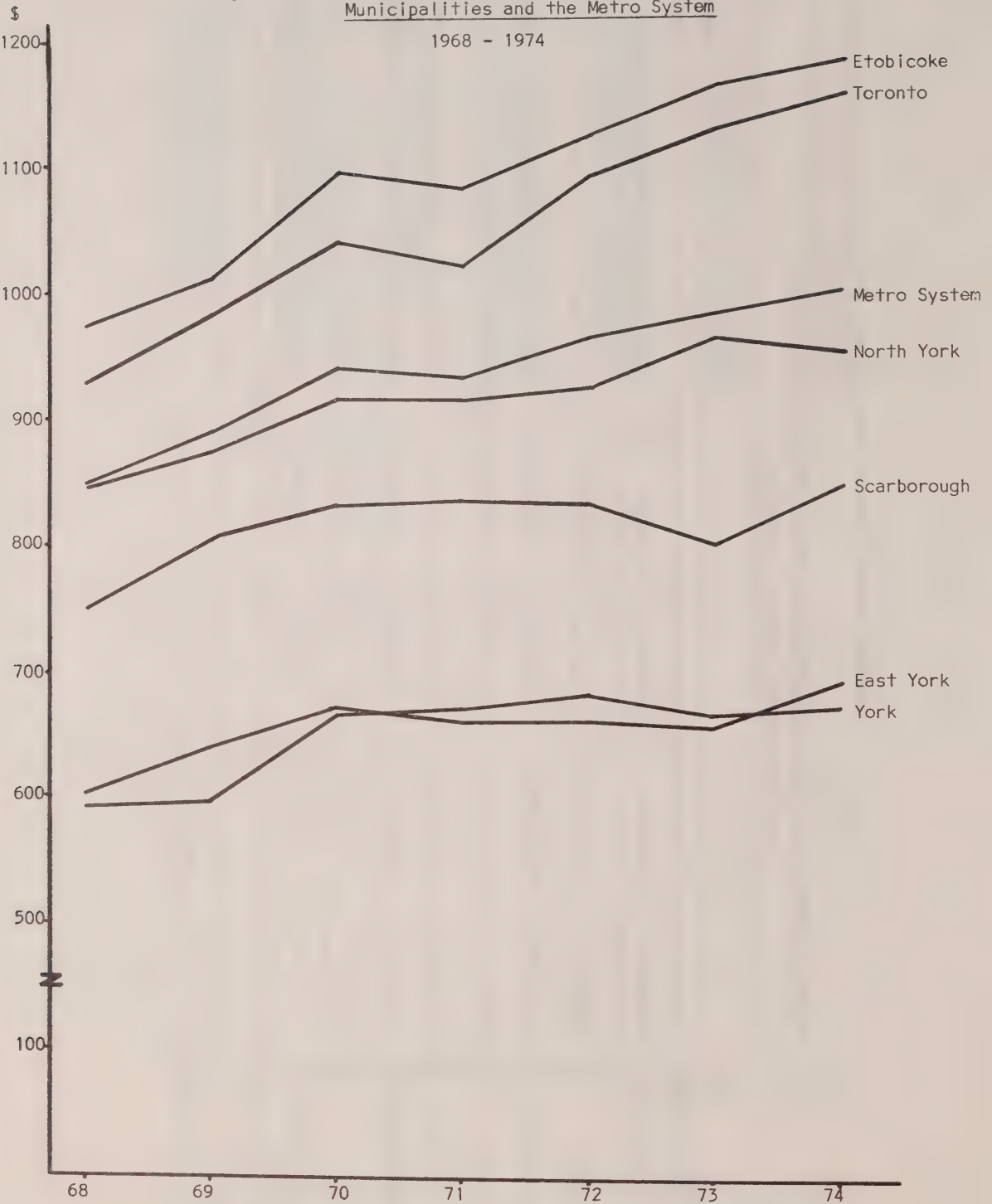
Municipality	1968	1969	1970	1971	1972	1973	1974
Toronto	\$929.60	\$981.96	\$1,040.84	\$1,022.23	\$1,093.96	\$1,131.80	\$1,157.12
East York	601.41	641.71	672.91	659.98	661.27	657.87	692.35
Etobicoke	970.61	1,011.49	1,096.89	1,083.34	1,124.59	1,165.83	1,182.39
North York	846.51	873.13	917.37	914.76	927.40	965.96	956.55
Scarborough	750.52	806.73	832.82	835.67	834.74	803.53	847.94
York	590.22	599.71	667.90	670.22	683.09	667.17	670.72
Metro System	847.55	889.90	941.82	932.68	965.32	983.84	1,002.80

Source: Based on data in Appendix K.



Figure 9-3: Per Household Total Tax Levy in the Area  
Municipalities and the Metro System

1968 - 1974



Source: Appendix K

D. A Comparative Analysis of Per Household Taxation  
for the Area Municipalities 1968-1974

The preceeding section did not cover the composition of the total tax levy, information which is useful as a basis for comparing the relative impact of residential taxes per household on Metro's six municipalities over the period studied. Similar comparisons can be made for per household taxes on the commercial, industrial and business sectors. Table 9-4<sup>4</sup> illustrates the importance of these two tax levies for 1968 and 1974. In the entire Metro system, there was virtually no change in the percentage of the total levy coming from residential property over the seven year period. For example, 53 per cent of the total tax levied in 1968 came from the tax on residential property while 45.7 per cent resulted from the tax on commercial/industrial and business property.<sup>5</sup> The relative importance of these two tax sources changed little from 1968 to 1974.

Among the area municipalities, it is interesting to note that the City of Toronto, with its heavier concentration of commercial and industrial establishments, collected less than 42 per cent of its total tax revenue from residential property and almost 58 per cent from commercial/industrial property tax and business taxes in the two years examined. The remaining municipalities, with the exception of Etobicoke, collected more than 62 per cent of their total taxes from residential property and less than 36 per cent from commercial/industrial assessment and business taxes. (Table 9-4). These statistics indicate that from 1968 to 1974, the percentage of total tax revenue collected from residential property increased in York and East York. The trend in Etobicoke and North York was reversed.

Tables 9-5 and 9-6 provide information on the per household residential tax levy and the per household commercial/industrial property tax and business tax levies for the years 1968 to 1974.<sup>6</sup> In 1974, Etobicoke's per household residential tax levy was higher than that in any of the other municipalities (\$615.71). In fact it was 39 per cent higher than York's (\$442.74). The average for the Metro system was \$526.59.

---

<sup>4</sup> Metro alone is not included in this analysis since Metro imposes a levy on the area municipalities. The taxation statistics for each of the area municipalities include the portion which is passed on to Metro alone.

<sup>5</sup> This includes the realty tax on commercial/industrial establishments plus the business tax.

<sup>6</sup> See Appendices M and N for a detailed breakdown of the tax levy for upper tier, lower tier and school purposes.

Table 9-4

Per Cent of Total Tax Levy Obtained from  
i) Residential and ii) Commercial/  
Industrial and Business Taxation<sup>1</sup>

	1968		1974	
Municipality	Residential	Commercial/ <sup>2</sup> Industrial	Residential	Commercial/ <sup>2</sup> Industrial
Toronto	41.3	57.6	41.4	57.6
East York	63.9	34.9	68.7	30.8
Etobicoke	56.5	42.9	52.1	47.6
North York	64.9	32.9	60.5	38.5
Scarborough	62.9	35.8	63.1	36.1
York	63.6	35.5	66.0	33.7
Metro System	53.0	45.7	52.5	46.7

<sup>1</sup>The two columns for each year will not total 100 per cent because special charges (amounting to roughly 1 per cent per year) are not included.

<sup>2</sup>The commercial column includes the realty tax on commercial, industrial and business establishments plus the business tax.

Source: Calculated from data supplied by Treasury, Economics and Intergovernmental Affairs, Toronto, Ontario.

Table 9-5  
Per Household Residential Property Tax Levy 1968-1974

Municipality	1968	1969	1970	1971	1972	1973	1974
Toronto	\$383.47	\$405.50	\$423.54	\$422.95	\$473.56	\$495.03	\$479.19
East York	384.57	412.21	438.71	366.21	447.13	428.32	475.75
Etobicoke	548.76	566.38	597.77	577.10	590.90	628.31	615.71
North York	549.47	568.08	583.99	567.90	567.37	606.65	578.54
Scarborough	471.83	505.73	528.14	511.83	529.11	509.75	535.46
York	375.67	383.11	497.93	426.81	437.42	439.31	442.74
Metro System	444.14	474.61	502.56	485.33	514.29	532.07	526.59

Source: Based on Appendix M



Table 9-6  
Per Household Commercial / Industrial and Business Tax Levy, 1968-1974

Municipality	1968	1969	1970	1971	1972	1973	1974
Toronto	\$535.25	\$560.40	\$606.73	\$585.51	\$609.74	\$625.24	\$666.74
East York	209.66	223.04	228.59	288.65	209.81	206.76	213.06
Etobicoke	416.01	439.72	494.54	501.13	528.68	533.42	562.33
North York	278.63	289.12	318.41	331.64	348.63	348.44	367.98
Scarborough	268.49	291.47	295.82	315.13	298.10	286.85	306.02
York	209.24	212.06	166.16	240.56	243.29	225.75	226.12
Metro System	387.32	403.85	429.53	436.38	442.37	442.05	468.03

Source: Based on Appendix N.

The tax levy on commercial/industrial property when calculated on a per household basis for 1974 was higher in the City of Toronto (\$666.74) than in the other municipalities.<sup>7</sup> It was 213 per cent higher (on a per household basis) than in East York (\$213.06). The average for the Metro system was \$468.03. For each year studied Toronto had the highest per household tax levy on commercial/industrial property and businesses ranging from \$535.25 in 1968 to \$666.74 in 1974, a rate of increase of almost 25 per cent. At the same time East York and York had the lowest (\$209.66 in 1968 and \$213.06 in 1974 in East York, \$209.24 in 1968 and \$226.12 in 1974 in York). The respective rates of increase were 1.6 and 8.1 per cent over the seven year period. The greatest rate of increase (on a per household basis) for this revenue category occurred in the boroughs of Etobicoke (35.1 per cent) and North York (32.1 per cent). The rate of increase in the Metro system was 20.8 per cent.

An examination of the residential property tax levy on a per household basis (Table 9-5) reveals that in the boroughs of Etobicoke and North York it has been consistently and considerably higher than in Metro's other area municipalities during the period under review. York was the lowest in four of the seven years (1968, 1969, 1972, 1974).

The greatest rates of increase appeared in the City of Toronto (25.0 per cent) and East York (23.7 per cent) while the slowest rate of increase occurred in North York (5.3 per cent). The rate of increase in the entire Metro system was 18.6 per cent.

A few comments should be made about the Metropolitan levy on the area municipalities. Obviously, one cannot effectively compare the Metropolitan levy (alone) with that in the area municipalities because the two tiers have very different responsibilities which must be supported out of their respective revenues. The tax statistics in Tables 9-5 and 9-6 relating to the area municipalities include the portion of the Metro levy each collects. Table 9-7 shows the Metro levy on the area municipalities in total and on a per household basis for each of the years 1968 to 1974. During this period the Metro levy rose by almost 49 per cent. On a per household basis it increased slightly by more than 18 per cent. Approximately 73 per cent of total taxes collected went to support the upper tier, leaving around 27 per cent for the area municipalities.

---

<sup>7</sup>For a review of the total tax levy on a per household basis, refer back to Table 9-3.

Table 9-7

The Tax Levy by Metro (alone) on  
The Area Municipalities

Year	Total Metro Levy (000)	Per Household Metro Levy	Metro Levy as a Per Cent of Total Taxes in Metro System
1968	\$359,745	\$611.79	72%
1969	391,592	655.14	74
1970	453,490	698.73	74
1971	448,876	676.47	73
1972	489,896	706.89	73
1973	487,238	706.60	72
1974	535,178	723.12	72

Source: Calculated from data in Municipal Financial Information, Treasury, Economics, and Inter-governmental Affairs, (annual publication) Toronto, Ontario.

Conditional grants did not show the same variability in magnitude as the other two types of grant. With the exception of North York where the total of conditional grants fell (by 21.7 per cent), all other municipalities showed an increase with Scarborough having the highest increase (100 per cent) and York having the lowest rate of increase (31 per cent).

The percentage increase in the unconditional grant was not calculated since in all cases the absolute input of the grant in 1968 was extremely small. Consequently, any increase in volume over the seven year period would yield enormous, virtually meaningless, percentage increases. Instead, a better measure of the importance of the unconditional grant would be to compare it with the other types of grants in both years.

In all cases, unconditional grants were extremely insignificant in 1968. In fact, they ranged from zero in Scarborough and East York to a high of \$131,000 in York with Toronto (\$15,000), Etobicoke (\$7,000), North York (\$112,000) all falling in between. It was only in York where they had any noticeable impact. (14 per cent of its total grants came from unconditional grants).

By 1974, however, unconditional grants had increased considerably and they began to assume a much more important role. Unconditional grants became the largest component of total grants in York (74.4 per cent of the total grant) and East York (42.6 per cent of the total grant) while absorbing reasonably large portions in the other municipalities; Toronto (13.9 per cent), Etobicoke (23.1 per cent), Scarborough (30.4 per cent) and North York (25.9 per cent). The reason for this sharp increase in the unconditional grant component is due to the exclusion of the residential property tax reduction program from the unconditional grant figures for 1968, 1969, 1970 and 1971. This program, abandoned before 1972, involved a transfer of funds from the provincial government to the local governments in order to alleviate partially the property tax burden on local property owners. Since this money was given as a direct substitute for higher property taxes, it was argued that it should be considered property tax revenue (this has been done in this study) and not an unconditional grant. But by 1972 the program had been replaced by a property tax credit program. It was not until 1973 that unconditional grants exhibited a large increase (see Appendix O). This resulted from the introduction of the Ontario Property Tax Stabilization Plan which provided increasing grants for municipalities so that they could either hold their property taxes constant, decrease them or increase them at a slower rate than would otherwise be the case. (See Appendices M and N for property tax levels).



## E. Analysis of Grants

Figure 9-1 illustrated that contributions from governments in the form of grants was the second most important source of revenue in the Metro system from 1968 to 1974.

Table 9-8 shows the revenues obtained from conditional grants (excluding the provincial grant for education), unconditional grants, grants-in-lieu of taxes, and educational grants for the years 1968 to 1974. Total grants increased by 145 per cent over the seven year period. The education grant increased by 115 per cent, conditional grants by 167 per cent, unconditional grants by 309 per cent, and grants-in-lieu of taxes by 100 per cent. The education grant represents a significant proportion of total provincial grants (45.9 per cent in 1974 and 52.5 per cent in 1968) followed by conditional grants (28.4 per cent in 1974 and 26 per cent in 1968). Provincial grants expressed as a percentage of the total revenue of the Metro system increased from 21.7 per cent in 1968 to 30.9 per cent in 1974.

Figure 9-4 illustrates the trends with respect to grants on a per household basis for the entire Metro system from 1968 to 1974 and shows the relative importance of the various grants. Education, although the highest in absolute terms, was not the fastest growing. This was assumed by the unconditional grants category.

With respect to the individual municipalities, Table 9-9 illustrates the actual volume of and percentage increase in the various categories of grants in each municipality from 1968 to 1974. York, while the second lowest in terms of total volume of grants in both years, exhibited the largest percentage increase in total grants (355.2 per cent). This was primarily due to a large increase in unconditional grants. North York, on the other hand, had the lowest increase in total grants (73.7 per cent) because of the decrease in the volume of conditional grants going to this municipality.

Grants-in-lieu of taxes, in an absolute sense, varied considerably. For example, in 1974 Toronto received \$18,825,000 in grants-in-lieu of taxes while York received \$303,000. The greatest rate of increase appeared in Scarborough (191.5 per cent) while the slowest rate of increase occurred in York (31.2 per cent).

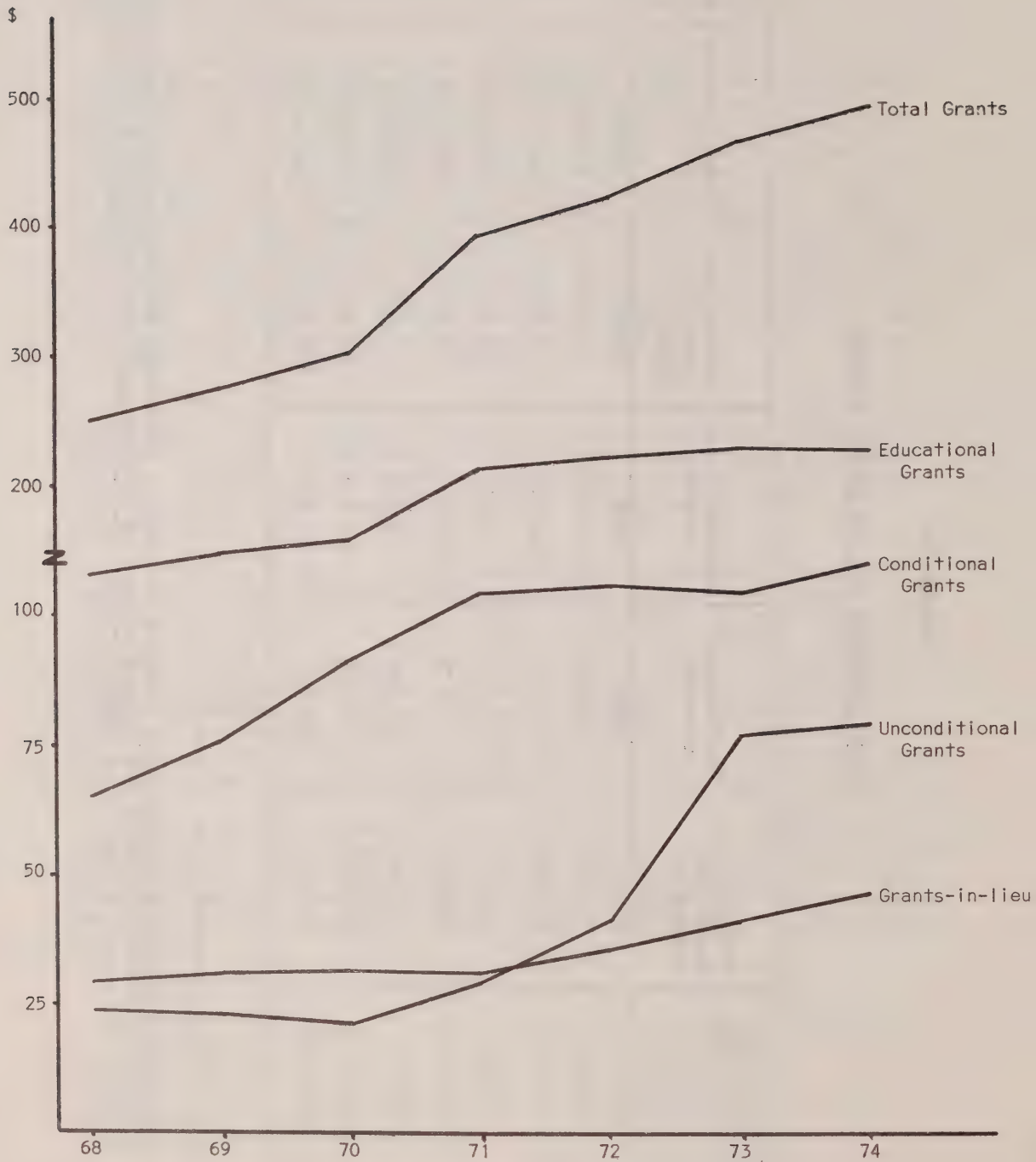
Table 9-8  
Grant Revenue of the Metro System

Year (1)	Gross General Revenue In- cluding Grant for Education (2)	Provincial Grant for Education (3)	Conditional Grants (4)	Unconditional Grants (5)	Grants-in- lieu of Taxes (6)	Total Grants <sup>1</sup> (7)	Total Grants as a % of Total Revenue (8)
1968	\$000 678,927	\$000 77,212	\$000 38,300	\$000 14,276	\$000 17,308	\$000 147,096	21.7
1969	742,890	86,542	45,045	14,080	19,557	165,224	22.2
1970	856,622	103,213	59,093	14,083	21,590	197,979	23.1
1971	934,478	140,439	77,678	18,703	21,651	258,471	27.7
1972	1,014,964	153,349	82,999	28,234	24,591	289,173	28.5
1973	1,046,583	158,385	80,348	52,529	28,116	319,378	30.5
1974	1,170,082	165,685	102,411	58,360	34,614	361,070	30.9

<sup>1</sup>Obtained by summing columns 3, 4, 5 and 6.

Source: Municipal Financial Information (annual reports), Treasury, Economics and Intergovernmental Affairs, Toronto, Ontario and Annual Report of the Commissioner of Finance of Metropolitan Toronto for each of the years 1968 to 1974.

Figure 9-4: Per Household Grants in the Metro System  
1968 - 1974



Source: Appendix O

Table 9-9

Grants to the Area  
Municipalities 1968 and 1974

	1968 <sup>1</sup> \$(000)	1974 \$(000)	Percentage Increase %
<u>Toronto</u>			
Grants-in-lieu of Taxes	9,678	18,825	94.5
Unconditional Grants	15	4,025	A
Conditional Grants	3,308	6,068	83.4
Total	13,001	28,918	122.4
<u>Etobicoke</u>			
Grants-in-lieu of Taxes	2,184	3,234	48.1
Unconditional Grants	7	1,777	A
Conditional Grants	1,613	2,675	65.8
Total	3,804	7,686	102.1
<u>Scarborough</u>			
Grants-in-lieu of Taxes	2,401	6,998	191.5
Unconditional Grants	0	4,484	A
Conditional Grants	1,627	3,259	100.3
Total	4,028	14,741	266.4
<u>York</u>			
Grants-in-lieu of Taxes	231	303	31.2
Unconditional Grants	131	3,144	A
Conditional Grants	566	777	37.3
Total	928	4,224	355.2
<u>East York</u>			
Grants-in-lieu of Taxes	228	314	37.7
Unconditional Grants	0	627	A
Conditional Grants	283	532	88.0
Total	511	1,473	188.3
<u>North York</u>			
Grants-in-lieu of Taxes	2,494	4,940	98.1
Unconditional Grants	112	2,920	A
Conditional Grants	3,879	3,407	(21.7)
Total	6,485	11,267	73.7

<sup>1</sup>The unconditional grant excludes the Residential Property Tax Reduction Program. The per capita grant payable to Metro but credited to the area municipalities, is not included in this table.

A The percentage increase for unconditional grants was not calculated since in all cases, it would have provided an extremely large percentage increase because of the very low level of provincial grants in 1968.

Source: Appendix O.



Because of its different expenditure responsibilities, Metro alone was not compared with the area municipalities in Table 9-9. Perhaps a few words, then, are in order for Metro alone. Metro collected nothing in the way of grants-in-lieu of taxes since it does not tax directly and does not qualify for this form of grant. Unconditional grants to Metro (alone) increased by 195 per cent over the seven year period with the major share of this increase occurring in the post 1972 period. Conditional grants in total accounted for 88.2 per cent of all grants received by Metro alone in 1968 and 85.9 per cent of all grants received in 1974. (See Appendix O). Of the total of all conditional grants, education absorbed 74.1 per cent in 1968 and 65.9 per cent in 1974 with transportation and health and welfare<sup>8</sup> following in order of importance. Conditional grants increased by 141 per cent with the provincial grant for education increasing by 115 per cent over this time period. Obviously, then, other conditional grants (including health, welfare and transportation) increased at a rate which was in excess of the educational grant increase and the overall conditional grant increase. Health and welfare grants rose by 182 per cent and transportation grants by 530 per cent.

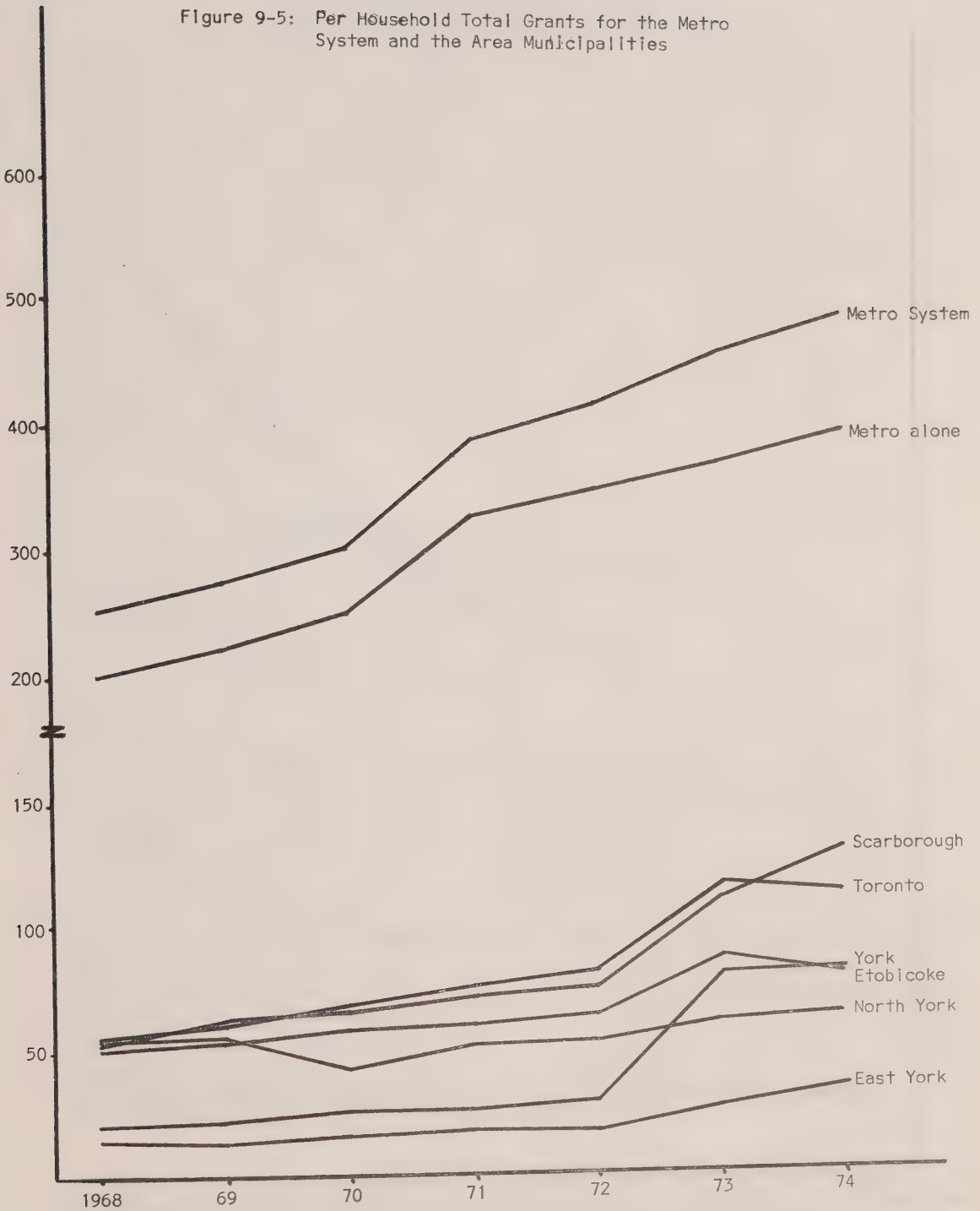
Figures 9-5, 9-6, 9-7 and 9-8 illustrate the level of grants on a per household basis in each of the area municipalities. Figure 9-5 illustrates the per household total grants for Metro alone and the area municipalities. Total grants to Metro alone increased by almost 87 per cent from \$201.10 per household in 1968 to \$375.58 per household in 1974. The overall increase in total grants for the Metro system amounted to roughly 95 per cent with Toronto (101 per cent), Scarborough (148 per cent), York (304 per cent), and East York (138 per cent) all exceeding the Metro average. North York (23 per cent) and Etobicoke (60 per cent) on the other hand, experienced much smaller increases.

Grants-in-lieu of taxes (Figure 9-6), although relatively small absolute amounts throughout the entire period, increased by about 59 per cent in the Metro system between 1968 and 1974. York, East York and Etobicoke recorded the smallest percentage increase (16 per cent, 14 per cent, and 17 per cent respectively) while Scarborough and Toronto not only had the highest absolute level in all years but also recorded the greatest percentage increase in the period (97 per cent and 76 per cent respectively).

---

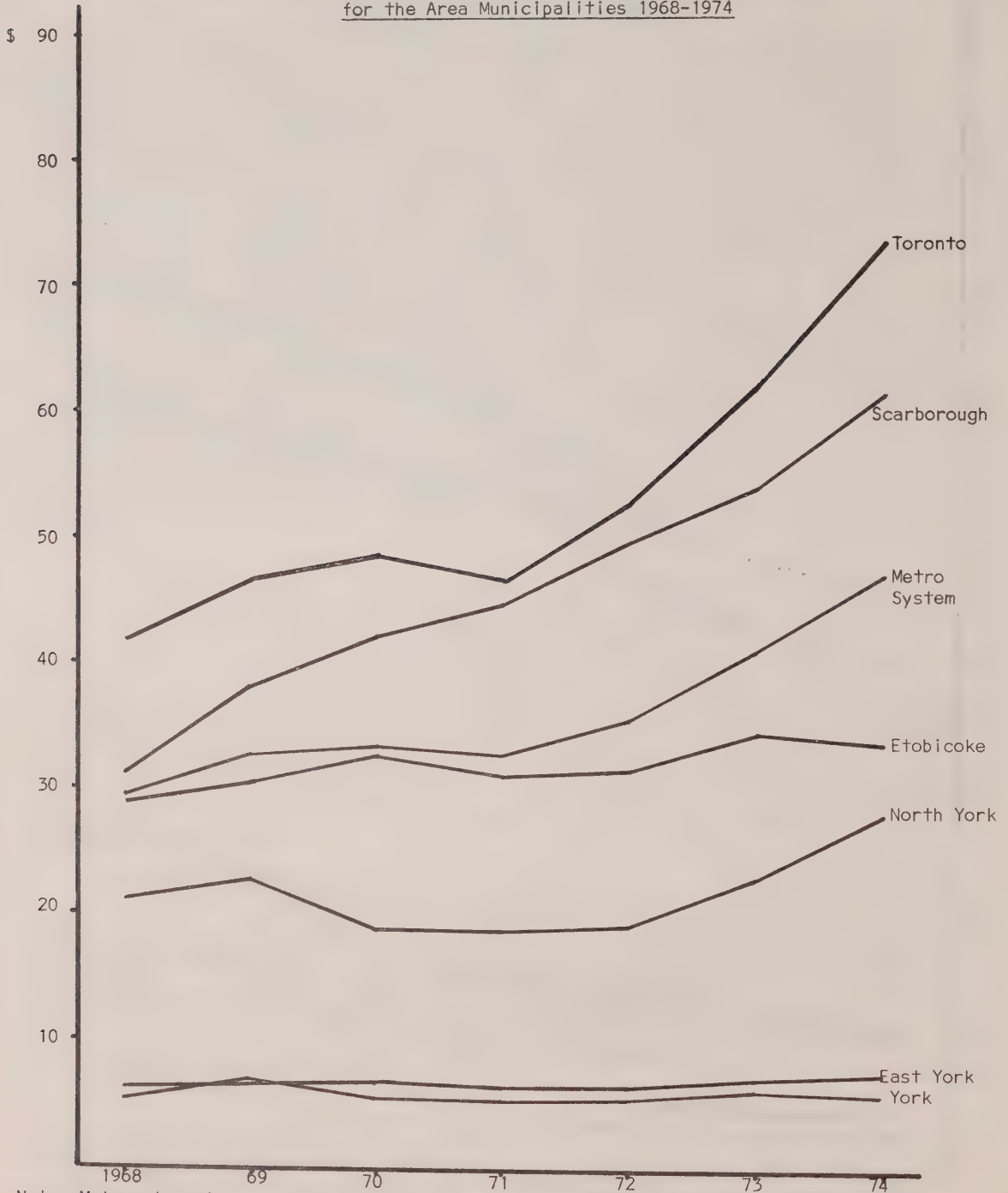
<sup>8</sup>Health and welfare are grants accounting for 18.7 per cent of total grants in Metro alone in 1968 and 21.9 per cent in 1974. Transportation accounted for 4.6 per cent in 1968 and 12.0 per cent in 1974.

Figure 9-5: Per Household Total Grants for the Metro System and the Area Municipalities



Source: Appendix O

Figure 9-6: Per Household Grants-in-lieu of Taxes  
for the Area Municipalities 1968-1974



Note: Metro alone is excluded since grants-in-lieu of taxes were nil for this municipality.

Source: Appendix O.

Unconditional grants (Figure 9-7) changed the most dramatically of all types of grants over the period studied. For example, from 1968 to 1971 unconditional grants were either non-existent or extremely insignificant for all municipalities with the exception of Metro alone. In 1973, unconditional grants rose substantially. This was primarily due to the implementation of the Ontario Property Tax Stabilization Plan, which included two new unconditional grant programs applicable to municipalities in the Metro system; namely the General Support Grant and the Resource Equalization Grant. The General Support Grant consists of 6 per cent of the net general dollar levy of each of Metro and the area municipalities. The Resource Equalization Grant provides a payment based on the deficiency between a municipality's per capita equalized assessment and the provincial average per capita equalized assessment. This grant formula applies a factor of 60 per cent of this assessment deficiency to the amount of the general dollar levy plus the General Support Grant.

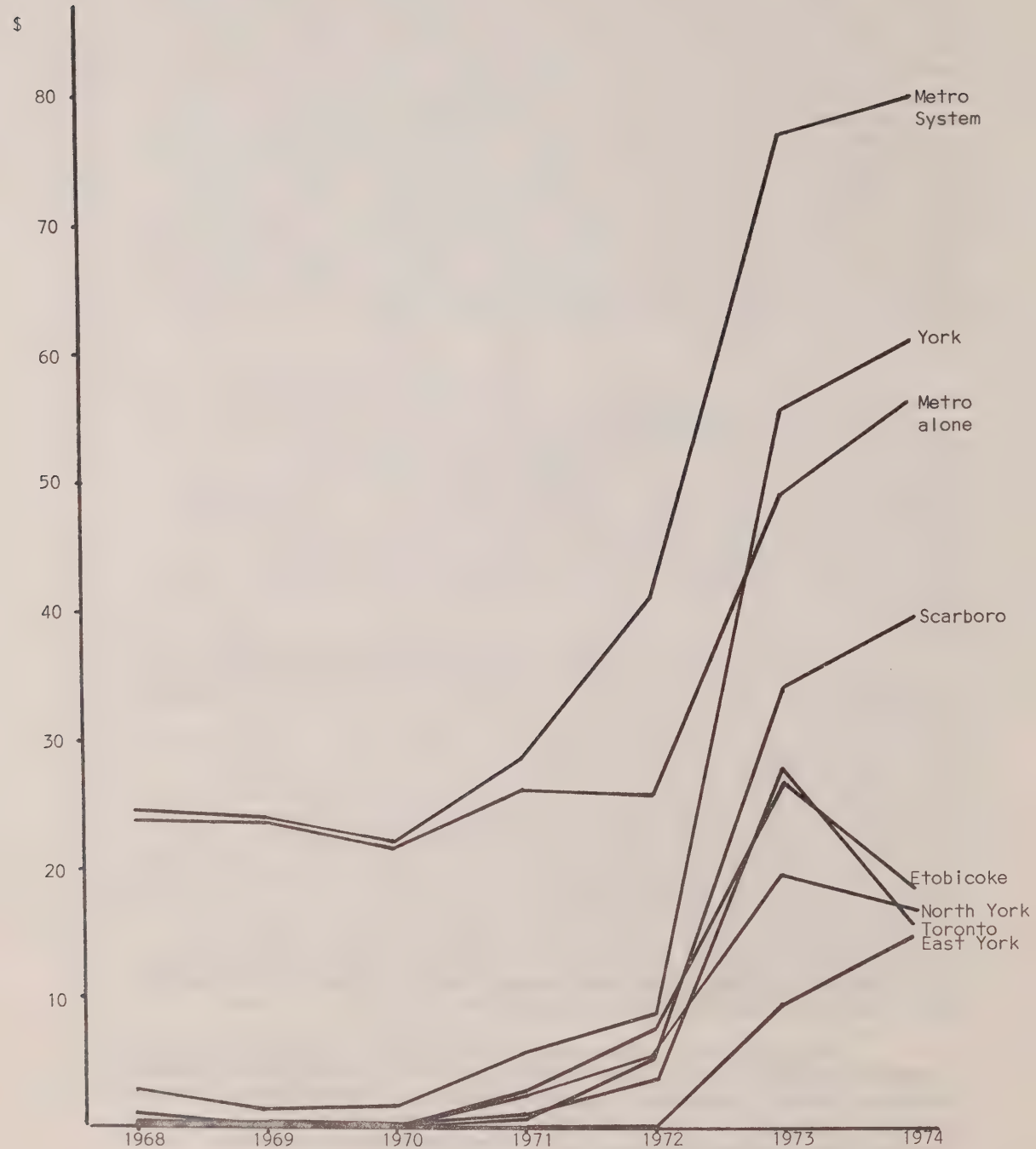
York and Scarborough were the only two municipalities in the Metro system to have per capita equalized assessment less than the provincial average for 1973 and 1974 and therefore received Resource Equalization Grant payments under this program. In 1974, Scarborough received \$1,669,000 from this and \$2,815,000 from the General Support Grant for a total of \$4,484,000. York received \$1,992,000 from the Resource Equalization Grant and \$1,152,000 from the General Support Grant for a total of \$3,144,000. As well, Metropolitan Toronto alone received \$7,482,000 from the General Support Grant in 1974.

Unconditional grants for Metro alone increased noticeably in 1973 and 1974. Much of this increase can be accounted for by the General Per Capita Grant. This consists of a lump sum payment based on population plus a per capita amount which rises with population. The General Per Capita Grant is paid to Metro (and is recorded in Figure 9-7) but credited in the Metro levy to the area municipalities on the basis of their populations. In 1975, this grant amounted to \$9.00 per capita for general purposes and \$12.00 per capita for police services. This per capita grant rose by 223 per cent from 1968 to 1974 or in absolute terms from \$14 million to \$45.2 million. Obviously, then, when observing Figure 9-7, one can make meaningful comparisons between the level of unconditional grants in the area municipalities but cannot make meaningful comparisons between the area municipalities and Metro alone.

Figure 9-8 illustrates the conditional grants on a per household basis for each of the municipalities from 1968 to 1974. Although the behaviour of conditional grants has not been as erratic as that of unconditional grants, there have, nevertheless, been some important changes. Per household conditional grants paid to Metro alone rose by

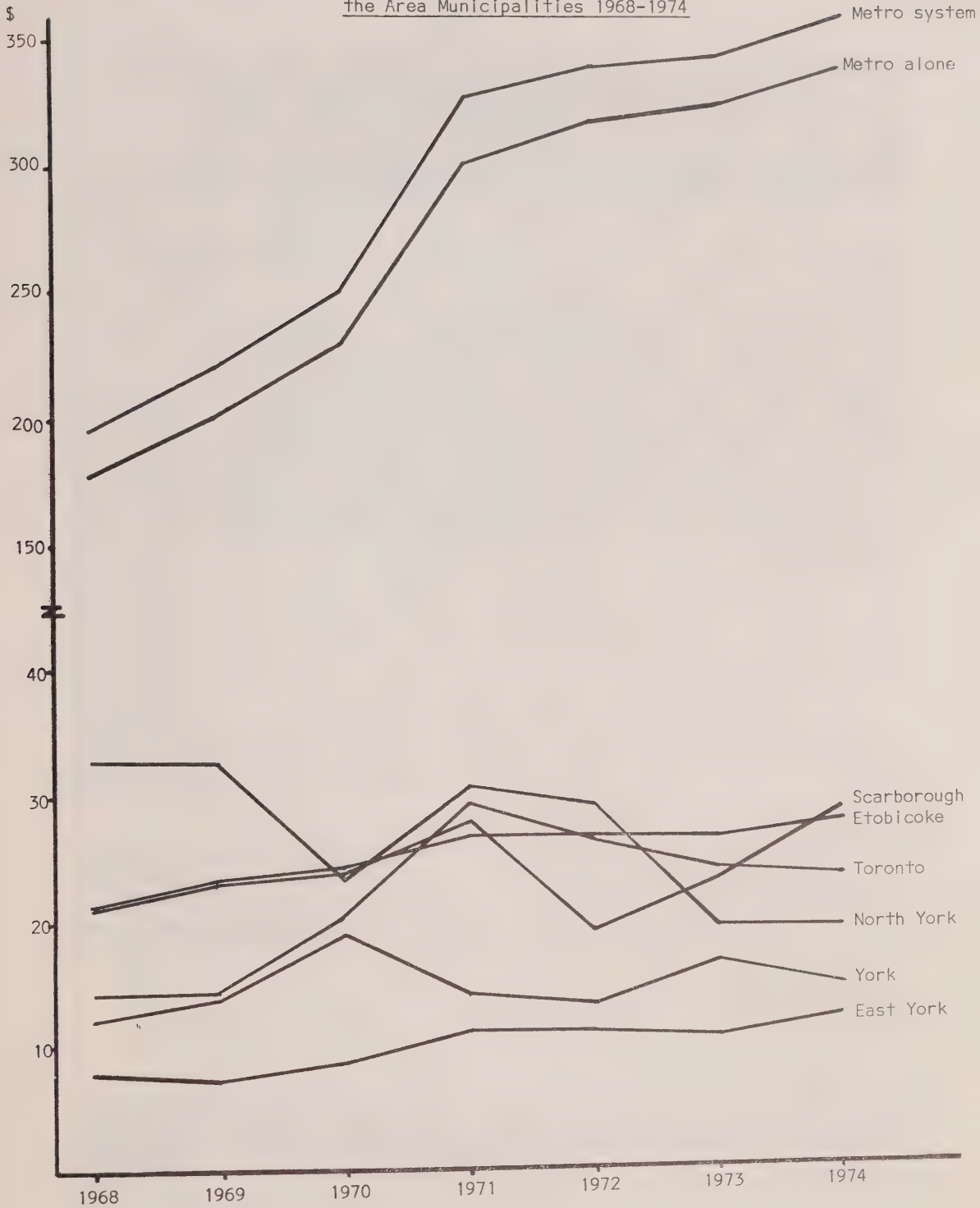


Figure 9-7: Per Household Unconditional Grants  
for the Area Municipalities 1968-1974



Source: Appendix O.

Figure 9-8: Per Household Conditional Grants for  
the Area Municipalities 1968-1974



Source: Appendix O.

92 per cent and in the overall Metro system they increased by 84 per cent. In the area municipalities, the most notable increases occurred in Toronto (67 per cent) and East York (55 per cent) with Scarborough (36 per cent), Etobicoke (31 per cent) and York (22 per cent) following some distance behind. At the same time North York's per household conditional grants decreased by 41 per cent.

While the total of all grants increased over the period studied, the relative importance of various types of grants shifted. Unconditional grants, if in existence in 1968, were highly insignificant, yet in 1974, they exceeded the level of conditional grants in the municipalities of Scarborough, York and East York. On the other hand, grants-in-lieu of taxes continued to yield the largest percentage of grant revenue in Toronto, Etobicoke and Scarborough while in North York, grants-in-lieu of taxes grew from the second most important category of grant in 1968 to the most important in 1974. Conditional grants continued to be the most important source of grant revenue in Metro alone. In fact, conditional grants were 6.1 times greater than unconditional grants in 1974 (See Appendix O).

## CHAPTER 10

### AN EVALUATION OF EXISTING REVENUE SOURCES

Since approximately 99 per cent of all revenue in the Metro system comes from grants and property taxes, no study of this nature would be complete without some assessment or evaluation of these two major sources of funds.

#### i) Grants<sup>9</sup>

Grants can be divided into various categories but our major concern in this section will be with conditional and unconditional grants. Conditional grants are transfers from one level of government to another with strings attached. Normally, these grants are provided on some kind of matching or partially matching basis; that is, the senior government agrees to pay a specific percentage (perhaps 50 or 80 per cent) of the costs of introducing or operating a specific program if the recipient covers the remainder of the cost. Such grants tend to be used for two important reasons, the first of which is to encourage municipalities to initiate or expand local services or facilities which the provincial government deems to be in the public interest. Examples of this type of grant include housing grants and library grants. Second, conditional grants often are used to subsidize some local service or facility. By reducing the cost of service or facility to the local municipality the municipality is given three options: "improving or expanding the service or facility; diverting resources previously allocated to it or to some other area; or, reducing the tax load."<sup>10</sup> Examples of such grants include grants for public transit and day care services.

In general, conditional grants tend to be preferred by their donors because they allow them to exercise some control over the nature, range and calibre of the public services offered in the community. Therefore, for example, they can often ensure that a similar range and level of services are provided in different cities or municipalities.

---

<sup>9</sup>For a good analysis of the role of grants, see J.S. Dupre, Intergovernmental Finance in Ontario: A Provincial-Local Perspective, a study prepared for the Ontario Committee on taxation, Queen's Printer, Toronto, 1967.

<sup>10</sup>Ibid, p. 91.



On the other hand, it frequently has been argued that conditional grants discourage local experimentation and innovation and create administrative inefficiencies because of the extensive amount of auditing and documentation that they usually involve. As well, conditional grants often need ceilings on the amount that will be provided to ensure that they do not result in an unreasonable level of spending on the part of their donors. The extent of the problems varies from grant to grant. The evaluation of any particular grant requires a counterbalancing of the benefits that accrue from it with any problems it may create.

Unconditional grants are transfers from one level of government to another without strings attached. The recipient is entitled to spend this revenue in whatever fashion it desires. An increase in such grants often enables a municipality to increase its expenditures without a corresponding increase in property taxes or to reduce property tax rates if its expenditures do not increase. Local governments prefer this type of grant since it increases their revenues and gives them greater flexibility in their spending patterns. By giving the local level more autonomy senior governments have less control over local spending or activities. A major advantage of this type of grant is that it enables municipalities with limited financial resources to offer services available in more affluent communities. In some instances then greater equity can be achieved through the use of unconditional grants.

These then are some of the more important general concerns which must be taken into account when considering the introduction, elimination or expansion of conditional and/or unconditional grant programs.

## ii) Property Tax

In Canada, the property tax is the single most important source of revenue for local governments. It is estimated that property tax revenue amounts to about 3 per cent of gross national product.<sup>11</sup> The real property tax raised over \$3.8 billion in revenues in Canada in 1974; about two-thirds of local revenue from own sources<sup>12</sup>. When business and personal property taxes and special assessments

---

<sup>11</sup>R. M. Bird, "The Incidence of the Property Tax: Old Wine in New Bottles?" in Canadian Public Policy, 1976, p. 329.

<sup>12</sup>Canadian Tax Foundation, Provincial and Municipal Finances, Toronto, 1975, p. 63.

were included, property related taxes contributed nearly 80 per cent of all local revenue from own sources in Canada (\$4.5 billion in 1974)<sup>13</sup>. However, the proportion of total local revenue provided by local property tax revenue has decreased over the years due to increases in federal and provincial grants. But as a fraction of own source revenue, the property tax has remained remarkably stable across Canada for a number of years.<sup>14</sup> The importance of the property tax cannot be denied when one recognizes these facts. Nonetheless the property tax is frequently criticized. While this question has been fully discussed elsewhere<sup>15</sup> the following is a brief review of some of the objections to it and a few comments on these objections.

First, it has been argued that there are administrative problems associated with the property tax. The most widely criticized aspect of the property tax is the assessment function; this criticism is founded on the observation that "...the ratio of assessed value to market value shows a large amount of variation both within and among localities".<sup>16</sup> These differences in assessment result from such objectives as "...increasing grants from provincial....governments, encouraging industry to locate in a municipality, and to placate a large number of potentially vocal taxpayers - home owners."<sup>17</sup> Variations also occur as a result of "...infrequent sale of some properties, the tendency of some assessors to undervalue properties with which they are unfamiliar, and the infrequency of reassessment."<sup>18</sup>

---

<sup>13</sup>James A. Johnson, "Municipal Tax Reform - Alternatives to the Real Property Tax" in Canadian Public Policy, 1976, p.335,

<sup>14</sup>Ibid, p. 335.

<sup>15</sup>For example, see Jens P. Jenson, Property Taxation in the United States, Chicago: The University of Chicago Press, 1931; and Edwin Seligman, Essays in Taxation, Macmillan, 1895, Chapter 2.

Dick Netzer, Economics of the Property Tax, Washington: The Brookings Institution, 1966,

Henry J. Aaron, Who Pays the Property Tax?, Washington: The Brookings Institution, 1975,

James A. Johnson, "Municipal Tax Reform - Alternatives to the Real Property Tax", in Canadian Public Policy, 1976.

<sup>16</sup>James A Johnson, op.cit., p. 337. See also Ontario Committee on Taxation, Report, Vol.II, Toronto: Queen's Printer, 1967, ch.13 and Netzer, op.cit., ch.17.

<sup>17</sup>Johnson, op.cit., p. 337.

<sup>18</sup>Ibid, p. 337.

The ramifications of variations in assessments can be significant, insofar as they result in inefficient resource allocation (thus violating the concept of neutrality) and inequities. For example, two individuals who own properties of equal market value and who are in identical personal economic circumstances may pay different amounts of tax.<sup>19</sup> Furthermore, if the property of one industry is assessed at a lower rate than the property of a second industry within the same locality, the first industry may expand to a greater extent than would otherwise be economically efficient. While there is nothing inherent in the property tax which means that variations in assessment must be a problem, the fact remains that many assessment problems have arisen and even grown in importance over the years.

The real question then is what should be done. Possible solutions to the problem of inadequate assessment include: "...establishing larger assessment units, improving the training given assessors, frequent reassessment at 100 per cent of market value, creating special provincial assessment units which aid in assessing industrial property that is hard to value, and increasing the use of computers and other data processing equipment."<sup>20</sup> In fact, most of these suggestions, including market value assessment, along with others were incorporated in the Ontario Budget for 1976, and will come into effect in Ontario in 1978 as part of the market value assessment program.<sup>21</sup>

A second major problem revolves around the structural characteristics of the property tax. Here it is alleged that the real property tax base is too narrow, resulting in inequities and inefficiencies of various types. It is possible, for example, that two individuals having the same wealth, income and expenditures have different amounts of real property (land and buildings) and therefore are subject to different amounts of property tax payable. The only way this problem could be overcome would be to impose a tax on all forms of wealth (real property, art, antiques, etc.) at the same rate as applied to real property. From a rather practical point of view, the difficulty of collecting information on and evaluating all forms of wealth would undoubtedly create severe administrative difficulties.

---

<sup>19</sup> Ibid, pp. 337-338.

<sup>20</sup> Ibid, pp. 337-338.

<sup>21</sup> Ontario Budget 1976. Budget Paper E. Reform of Property Taxation in Ontario.



A further argument against the real property tax is that it is levied on the gross value of the building and/or property rather than on the difference between the gross value and the outstanding mortgage. As a result, owners of two similarly priced properties who have different sized mortgages on their properties pay equal property taxes. Once again the administrative problem involved in collecting such precise data might dictate against actual implementation of a property tax levied on net value.

In addition, the real property tax has been questioned on economic efficiency grounds because the tax is levied on land and improvements but exempts other forms of capital. A partial solution to this problem may lie in site value taxation (which is a property tax levied on land only) which would tax land according to its economic potential, thus leading to economically efficient land use and a more progressive tax system.<sup>22</sup> However that may be, Ontario has embarked on a market value assessment system based on land and improvements, and a major change in the base would be impractical at this time.

One of the most important problems in the property taxation field revolves around the existence of exemptions. Full exemptions have generally been given to property "owned by upper-tiered governments, charitable, religious and educational institutions, and partial exemptions (have) often been given to farmers, homeowners and selected industries."<sup>23</sup> Exemptions to "upper-tiered" governments have been the result of "constitutional considerations" while exemptions given to charitable institutions etc. have resulted from the belief that these institutions generate "positive externalities" (benefits to society for which society may not directly pay) which should be encouraged.<sup>24</sup> It has also been argued that these institutions are difficult to assess and hence exemptions from property tax are in order.

Exemptions detract from the efficient and equitable taxation of property by reducing the tax base, and by raising taxes (in order to compensate for tax revenues lost to exempt properties) on non-exempt property. Consequently, taxed concerns (or properties) will be encouraged, and a mix of land uses will result which is different from that which would exist under equal treatment of all properties. Economic efficiency is therefore violated.

---

<sup>22</sup> See Mason Gaffney, *An Agenda for Strengthening the Property Tax* in G. Peterson (ed.), *Property Tax Reform*, Washington: The Urban Institute, 1973, for a discussion of site value taxation.

<sup>23</sup> Johnson, *op. cit.*, p. 341.

<sup>24</sup> *Ibid*, p. 341.



It is not clear to this author why these properties should be exempt. If a sound case can be made for such preferential treatment, then these groups should be rewarded directly in the form of grants rather than on the basis of their property holdings. In this way, the subsidies that are paid will be established openly and subject to review and amendment by elected representatives according to their interpretation of the public interest. The Ontario Budget for 1976 proposes changes which will help eliminate most of the property tax exemptions that now exist.

Finally, the most common criticism of the property tax is that it is regressive. It has been argued that the property tax takes a greater proportion of the income of low income people than of higher income people. This view is based on the assumption that there is no direct correlation between the income of an individual and the value of a property he may own or occupy. As a result, people with very different incomes often pay the same amount of property tax either directly or through their rents.

The property tax is also held to be regressive by virtue of the fact that property taxes imposed on business and individual sectors are passed on to consumers in the form of higher product prices. Since expenditures on consumption are said to comprise a greater proportion of the incomes of the poor than of the more well-to-do, the lower income person bears a relatively higher share of the tax burden.

While the regressivity of the property tax has been supported by various studies<sup>25</sup>, recent research has produced conflicting results. The "new view" argues that the property tax can be considered to be at least proportional if not progressive<sup>26</sup>, that is, it takes a greater percentage of the high-income earners income than of the low-income earners income. While a detailed assessment

---

<sup>25</sup>For a presentation of the results of these studies, see The Report of the Tri-Level Task Force on Public Finance, Vol. III, February, 1976, pp. 17, 18 and 41;

Allan Maslove, The Pattern of Taxation in Canada, a study prepared for the Econmic Council of Canada, 1972;

Irwin Gillespie, The Incidence of Taxes and Public Expenditures in the Canadian Economy, Studies of the Royal Commission on Taxation, No. 2, Ottawa, 1964.

<sup>26</sup>For a presentation of supporting evidence, see The Report of the Tri-Level Task Force on Public Finance, Vol. III, February 1976, p. 42.

of these two schools of thought is beyond the scope of this study, it is necessary to point out that there is considerable disagreement on the subject<sup>27</sup>.

Evidence in Ontario suggests that the implementation of the Ontario Property Tax Credit program has eliminated much, if not all, of the regressivity of the property tax. For example, Table 10-1 illustrates the property tax burden on selected households in the City of Toronto for 1970 and 1975. In 1970, in the absence of credits, the property tax burden was distributed regressively; an elderly couple living on \$4,000 income in Toronto paid net property taxes of 3.8 per cent of income while a household at \$13,000 income paid 3.4 per cent of income. In 1975, after the implementation of the property tax credit, an elderly couple at \$6,400 income in Toronto paid .6 per cent of their income for property taxes while a household at \$20,000 income paid 3.1 per cent. As well, it was estimated that approximately 600,000 tax filers out of roughly

---

<sup>27</sup>The standard analysis of the "new" view can be found in Mieszkowski, Peter, "The Property Tax: An Excise Tax or a Profits Tax?" in Journal of Public Economics, Vol. 1 (April, 1972), pp. 73-96 and Mieszkowski, "On the Theory of Tax Incidence" in Journal of Political Economy, Vol. 75 (June 1967), pp. 250-262.

George F. Break, "Property Taxation: A Reappraisal of Burden, Incidence, Equity and Their Policy Implications" (Unpublished, 1973); and Break, "The Incidence and Economic Effects of Taxation" in Alan Blinder, et al., The Economics of Public Finance, Washington, D.C.: The Brookings Institution, 1974.

For an assessment of both points of view, see

Richard M. Bird and Enid Slack, "The Incidence of the Property Tax in Canada: A Review of the Literature", in Report of the Tri-Level Task Force on Public Finance, Vol. III, February 1976

Henry Aaron, Who Pays the Property Tax?, Brookings Institution, 1975.

Table 10-1

Property Tax Burden on Selected Households in the City of Toronto

	\$	\$	\$	\$
1975	Elderly Couple on GAINS	Low Income Household	Average Income Household	High Income Household
Household Income	6,400	10,000	15,000	20,000
Gross Property Taxes	370	370	490	620
Ontario Prop. Tax Credits	330	120	30	Nil
Net Property Taxes	40	250	460	620
Net Property Taxes as % of Income	0.6%	2.5%	3.1%	3.1%
ooOoo				
	\$	\$	\$	\$
1970	Elderly Couple	Low Income Household	Average Income Household	High Income Household
Household Income	4,000	6,000	10,000	13,000
Gross Property Taxes	310	310	420	520
Res. Prop. Tax Reduction	160	60	70	80
Net Property Taxes	150	250	350	440
Net Property Taxes as % of Income	3.8%	4.2%	3.5%	3.4%

Source: Treasury, Economics and Intergovernmental Affairs,  
Toronto, Ontario 1976.

750,000 households in Metro either received a property tax credit or a pensioner tax credit or both in 1975.<sup>28</sup>

A report prepared by the Metro Toronto Chairman's Office, in August 1975, included the following comment on the Ontario Property Tax Credit Program: "The important fact of this reform is that it goes a long way to reduce the regressivity of the property tax. Municipal arguments about the limitations of the property tax often fail to recognize the positive impact of the tax credit system on the property tax."<sup>29</sup> In addition, the November 1975 Interim Report of the Tri-Level Task Force on Public Finance stated: "At the very least, although there are undoubtedly certain regressive features in all actual property taxes, it seems fair to conclude that the weight of the evidence is now against the conventional view that the property tax is one of the most regressive taxes in the fiscal system."<sup>30</sup> This quote refers to the property tax burden in Canada as a whole in the absence of tax credits. Hence, the inclusion of the tax credit may well introduce some moderate degree of progressivity into the property tax system in Ontario.

---

<sup>28</sup> Information obtained from Ministry of Treasury, Economics and Intergovernmental Affairs, Toronto. This information is based on the following assumptions:

- i) Each household, except for the elderly couple, is assumed to consist of husband, non-working wife and two children. The average income per household in Metro Toronto was estimated at \$19,000 in 1975 and \$13,000 in 1970. These figures are higher than the ones used in the analysis because some households have more than one income earner;
- ii) The average assessment per residential dwelling in the City of Toronto is approximately \$3,800. The figures used for the elderly couple was \$3,000, for the low income household \$3,000, for the average income household, \$4,000 and for the high income household, \$5,000. The mill rate used was 123.30 for 1975 and 104.56 for 1970;
- iii) The analysis excludes various municipal programs designed to offset the impact of property taxes on needy residents, such as property tax subsidies to the aged of \$100 made under the Municipal Elderly Resident's Assistance Act, rent supplementsto the needy, tax deferrals under the Municipal and School Tax Credit Assistance Act, partial exemptions of properties assessed at less than \$4,000.

<sup>29</sup> Ibid.

<sup>30</sup> Ibid.



In summary, then, most of the criticisms of the property tax appear to be largely unwarranted in the Province of Ontario. The Ontario Property Tax Credit appears to have alleviated most, if not all, of the regressivity which might have existed. Finally, it appears as if the recent proposals (as outlined in the 1976 Ontario Budget) for reform of the property tax would, if implemented, eliminate a number of the more serious structural problems.

## CHAPTER 11

### AN EVALUATION OF ALTERNATIVE REVENUE SOURCES

Rising municipal expenditures over the past few years have placed severe strains on the ability of municipalities to finance their activities from conventional sources of municipal revenue. There are a number of reasons why this is so. Foremost among them is the fact that the potential of the property tax as currently administered upon which all municipalities depend for the bulk of their "own" revenues, has not been realized. Continued rapid increases in property values and in municipal costs due to inflation and urban expansion have not resulted in comparable increases in property taxes because of the inflexibility of assessment and mill rates.

The general trend in municipal finance over the past fifteen to twenty years, as a result of the decline in the revenue generating power of the municipal property tax, has been towards increased dependence upon transfers from senior levels of government. In 1961, "own" source revenues of municipalities in Canada accounted for 84.6% of total local revenue while 15.4% was in the form of transfers from senior governments. By 1970, these proportions had changed to 54.0% and 46.0% respectively. The figures for 1974 were 50.5% and 49.5% respectively.<sup>31</sup>

The result of this increased dependence of municipalities upon transfers from higher levels of government for the financing of municipal services has been that the municipalities have lost a good deal of control over the services they provide. Because of the effects of grants described in chapter 9, municipal governments are no longer solely accountable to the electorate for the provision of public services. In the search for a solution to this problem, many different proposals have been made, especially with respect to alternative sources of revenue.

The following principles or criteria are used in evaluating the desirability and potential of different revenue sources.

---

<sup>31</sup>Clayton Sinclair, Cities Eye Income Tax Revenues to Ease Deficits, Financial Times of Canada, April 19, 1976.

## Equity

First, and perhaps most important, is equity. Although the notion of equity is subject to quite different interpretations (i.e. what may be an equitable tax to one individual may not be an equitable tax to another), there is a general consensus that equity includes two components. The first is horizontal equity or equal treatment of equals, i.e. all individuals in similar circumstances should pay the same tax. The second is vertical equity, i.e. individuals in different circumstances will pay different amounts of tax.

To achieve equity, specific indices of equality are needed. The two commonly referred to in the literature are the benefits-received principle and the ability-to-pay principle. The benefits-received principle states that individuals should pay a tax which reflects the benefits they receive from government services. The property tax is partly justified by this principle. For example, property owners benefit directly from police and fire protection and should be expected to pay for these services according to the value of the benefit received. The ability-to-pay principle is that people should pay taxes according to their ability to pay, however this may be defined. The two most important measures which have been suggested as a basis for calculating ability-to-pay are income and expenditure. The acceptance of income<sup>32</sup> implies that individuals should be taxed on the basis of their command over goods and services. An alternative approach and one that has been supported by some authors<sup>33</sup> is based on taxing individuals according to the level of expenditures undertaken, that is to say, individuals are to be taxed on the basis of what they take out of the system in the way of expenditures.

Once an index has been chosen, it is essential to tax all individuals in similar circumstances in the same way and those in different circumstances in a different way. For example, in the case of income, all individuals earning \$10,000 of net income would be taxed at the same rate and level while individuals earning more than \$10,000 of net income would pay a greater amount of tax, although the amount by which it should be greater must be determined by the policy makers. When considering expenditure, all individuals who, after allowable exemptions and deductions, spend \$5,000 on goods and services would pay the same amount of tax while individuals who spend more than \$5,000 would be taxed at a higher level.

---

<sup>32</sup>For a comprehensive review of income as a basis for taxation, see Henry Simons, Personal Income Taxation.

<sup>33</sup>For a defence of a tax on expenditures, see N. Kaldor, An Expenditure Tax.

Although both principles have their adherents, it is frequently argued that a tax based on income (ability-to-pay) is more equitable than tax based on expenditures (benefits-received). Consequently, the income tax is interpreted as being more equitable than the property tax.<sup>34</sup>

### Neutrality

A second principle or criterion upon which a municipal tax should be evaluated is whether or not the tax is neutral, that is to say, the tax should be imposed so as not to distort the consumption or production patterns of consumers or suppliers. The tax must be uniform in its application and it must be imposed at the same rate on all activities. For instance, the Ontario retail sales tax is not neutral because it is not imposed on all consumption activities. Exemptions for food, children's clothing, etc. have been established in an effort to ease the tax on particular groups. Such exemptions favour those individuals who must or want to spend a greater percentage of their income on those items.

### Ease of Administration

The ease of administering a tax is an important principle to consider when evaluating a specific tax. A tax should not be costly to administer,<sup>35</sup> should be clearly understood by the taxpayer and generally acceptable to the taxpaying public.

### Yield

A final point to consider, although not stated as a criterion upon which to base a tax, is the revenue yield that would be generated by implementing a specific tax. A tax which fulfills all the criteria but does not yield much revenue in relation to the costs of collection is not likely to be given a great deal of consideration, whereas a tax generating a considerable amount of revenue may be readily accepted and widely used even though it may be less than perfect in theory.

---

<sup>34</sup>This is not to be interpreted as a criticism of the property tax. There are very strong arguments to be made in favour of a more extensive utilization of the property tax; see chapter 10 and the conclusion of this study for an assessment of this tax.

<sup>35</sup>For example, it is estimated by Treasury, Economics and Intergovernmental Affairs Ministry that the cost of administering the property tax in Ontario is about 2.6 per cent of the yield.



These three criteria are important bases upon which to evaluate a municipal tax, but a number of further problems exist. For example, it may be difficult to achieve all three criteria simultaneously. In order to achieve equity it may be necessary to forego neutrality. In order to facilitate the administration of a tax, it may be necessary to make it less equitable or less neutral tax.

i) Municipal Income Tax

Perhaps the most important issue with respect to the possibility of introducing a municipal income tax is equity. One advantage of a municipal income tax over a property tax (assuming the former were to replace the latter) is that income tax is based on a taxpayer's ability to pay. The property tax is not as effective in meeting the requirements of the ability-to-pay criterion when there are wide variations in assessed property value, which do not necessarily correspond to variations in income.

Such a tax would also enable a municipality to tax commuters. Certainly commuters derive real benefits from the municipality in which they are employed and should pay for these benefits. However, complications arise when commuters are taxed. First of all, one must determine an appropriate rate to apply to commuters. Since these people do not live in the municipality they should be subject to a lower rate of income tax than residents because they do not benefit from all the goods and services it provides. This in fact is done in some American cities which have municipal income taxes.<sup>36</sup>

A municipal income tax will tend to violate both the equity and neutrality principles if the tax is not broadly based or not applied in all municipalities. If the tax is to be imposed only on wage and salary income, then there is no problem in assigning it (on a withholding basis) to both residents and non-residents. However, if the tax is to be applied to all income, problems arise insofar as it may be desirable to deduct the tax payable at the source of income. This could not be done efficiently for all types of income (capital gains, interest income, etc.) because of the intricacy of financial transactions and the difficulty in pinpointing the geographic location in which they occur. In order to tax all sources of income efficiently it would be necessary to make a municipal income tax a surtax on the federal income tax. Such a solution, however, would remove a considerable amount of control over the tax from the hands of the municipality.

---

<sup>36</sup>For a review of U.S. municipal income tax rates, see Federal-State-Local Finances: Significant Features of Fiscal Federalism by the Advisory Commission on Intergovernmental Relations, Washington: U.S. Government Printing Office, February 1974.

A further danger of a municipal income tax lies in its potential migratory effect. People and businesses will tend to locate to avoid as much taxation as possible. This danger can only be completely overcome if municipal income taxes are universal (i.e., they exist in all municipalities and effective rates are identical) or there is no municipal income tax at all. Obviously, if a municipal income tax were introduced in Metropolitan Toronto and no such tax existed in the surrounding areas, it could have very adverse effects on the location of industry or residential development in Metro. To minimize this potential out-migration, it would be necessary to establish an extremely low municipal income tax rate.

The imposition of a municipal income tax in Metro Toronto would also have effects on other citizens, not necessarily within Metro. For example, if the municipal income tax is imposed on the commercial sector, it is reasonable to assume that at least a portion of this tax will be passed on to consumers of goods and services produced in Metro, since the tax adds to production costs. Furthermore, a municipal income tax could lead to higher salaries or wages than would otherwise prevail which in turn could lead to higher prices. Hence, the incidence of any tax on a business or industry is not confined to the community in which it is located.

Probably the most attractive feature of the municipal income tax is its built-in growth potential; that is, as incomes rise, tax revenues automatically rise. Table 10-1 provides estimates of the potential revenue gain for Metropolitan Toronto from the imposition of a municipal income tax. Obviously a definitive statement on the actual yield which could be expected from such a tax would be preferable but this is impossible in the absence of a suitable and accurate data base. The figures in Table 11-1 are conservative estimates of the potential yield for Metropolitan Toronto.

A brief explanation of how these figures were arrived at is needed. First, the gross assigned income figures for the Toronto area which appear in the federal publication, Taxation Statistics, for each of the years 1968 to 1973 were adjusted<sup>37</sup> to include only the City of Toronto and the five surrounding boroughs. Second, a 1% flat rate tax<sup>38</sup> on the adjusted gross assessed income for

---

<sup>37</sup> Taxation Statistics for Toronto include a number of municipalities adjacent to but not part of Metropolitan Toronto. The total population of these adjacent areas amounted to approximately 5% of the population of Metro. Consequently, gross assessed income was reduced by 5%.

<sup>38</sup> 1% is the rate used in most U.S. cities which have municipal income tax. One could change this rate and adjust the figures in Table 11-1. The adjusted gross assessed income refers to the income as determined in footnote 36 before deductions and

Table 11-1

Estimated Revenue Yield in Metropolitan Toronto from  
a 1% Flat Rate Tax on Adjusted Gross Assessed Income  
for 1968 to 1973

Year (1)	Personal Income Tax (2)	Commuter Tax (3)	Corporate Income Tax (4)	Total Income Tax (5)
(millions of dollars)				
1968	57	3	11	71
1969	65	4	13	82
1970	69	4	14	87
1971	74	4	15	93
1972	85	5	17	107
1973	99	6	20	125

Source: Estimated from Taxation Statistics for each of the years listed and from J. A. Johnson, op. cit.

the years 1967 to 1973 was calculated. The resulting totals represent a fairly conservative estimate (column 2 of Table 11-1) of the revenue which Metropolitan Toronto could have expected to receive from a municipal income tax. Column 3 of Table 11-1 provides a rough estimate of the potential yield from a tax on commuters. This estimate is crude as there is little information on the number of trips into Metropolitan Toronto for the purpose of work and the income of the persons making the trip. Nevertheless, a previous estimate<sup>39</sup> has provided the basis for the figures in this table. Similarly, there are no reliable estimates on business income in the Toronto Metropolitan area. Once again a previous estimate<sup>40</sup> was employed as a basis for the figures in Column 4 of Table 11-1. Column 5 provides an indication of the total income tax yield for each of the years listed. The totals in Table 11-1 tend to be rather conservative estimates of the revenue yield. By way of comparison with other studies, J.A. Johnson (see footnote 31) estimated that a municipal income tax in Metropolitan Toronto would have generated approximately \$100 million in revenue in 1969 (\$74 million from personal income tax, \$20 million from a tax on business income plus \$5 million from commuters). If he had chosen the figure used in this study for 1969 business income (\$15 million - see footnote 30), his total would have been \$94 million, still some \$12 million greater than estimated in his study for the same year. This discrepancy can be attributed to the use of different data bases. Johnson adopted as his data base, unpublished figures obtained from Statistics Canada entitled "Patterns of Expenditure by Family Income, Toronto". As well, his estimating technique was somewhat more sophisticated than ours and

---

<sup>39</sup> J.A. Johnson in his article "New Tax Sources and Tax-Sharing for Canadian Municipalities," in the 1973 Conference Report, Canadian Tax Foundation, p. 601 estimates that commuters if taxed at the full rate for income earned in Metropolitan Toronto would have contributed less than \$5 million in 1969. This works out to 6-2/3% of personal income revenue for 1969. Hence, our estimate (Column 3 of Table 11-1) is based on the assumption that commuters' payments would amount to 6% of personal income tax revenue (i.e. 6% of the figures in Column 2).

<sup>40</sup> Ibid. Professor Johnson estimated that a municipal tax on corporate income would yield \$15 to \$20 million in 1969. This amounted to 20 per cent to 26-2/3 per cent of personal income tax (Column 2). In our estimate (Column 4 of Table 11-1) we opted for the lower figure (20 per cent) on the assumption that it was better to err on the low rather than the high side,



was based on an approach adopted by W.I. Gillespie and Allan M. Maslove.<sup>41</sup> Sheldon Silver's<sup>42</sup> estimate for 1966 was almost identical to the estimate which our approach would have yielded had our period of analysis been extended back to include 1966.

Finally, the Tri-Level Task Force on Public Finance has estimated Federal and Provincial Income Tax Revenues raised in Metropolitan Toronto in fiscal years 1972/73 and 1973/74 (Table 11-2). If one were to apply a municipal surtax (see discussion below) to these revenues, a rate of 4.9% in 1972/73 and 5.1% in 1973/74 would have yielded an equivalent amount of revenue. These figures are slightly lower than those estimated in Table 11-3 which further reinforces the conservative nature of the estimates in this study.

Although an examination of the progressivity of the income tax<sup>43</sup> is not a concern of this study, it is important to note that alternative forms of income tax could be imposed so as to yield exactly the same amount of revenue as under the flat rate income tax of 1%. First, in place of the flat rate tax, one might impose a surcharge on the present income tax collected by the federal government. The magnitude of the surcharge for each year is listed in Table 11-3. This scheme would be more progressive than the flat rate tax on gross income because of the progressive pattern of rates of the federal and provincial income taxes along with the fact that the tax is based on income after deductions and exemptions. A further alternative would be to impose a flat rate tax on taxable income (i.e. income remaining after the subtraction of deductions and exemptions from gross income). Table 11-4 provides the rate necessary to yield an amount of revenue equal to the yield from a 1% flat rate tax on gross income.

---

<sup>41</sup>W.I. Gillespie, The Incidence of Taxes and Public Expenditures in the Canadian Economy, study number 2 for the Royal Commission on Taxation, Queen's Printer, Ottawa, 1964.  
Allan M. Maslove, The Pattern of Taxation in Canada, Ottawa, Information Canada, 1972.

<sup>42</sup>Sheldon Silver, "The Feasibility of a Municipal Income Tax in Canada," Canadian Tax Journal, Sept.-Oct., 1968, p. 404.

<sup>43</sup>For an examination of the progressivity of the income tax, see J.A. Johnson, op.cit., p. 600 and A. Maslove, op.cit.

Table 11-2

Estimates of Personal Income Tax  
Revenue Raised in Metropolitan Toronto

	Fiscal 1972/73	Fiscal 1973/74
	(millions of dollars)	
Federal income tax	\$1,328.166	\$1,461.914
Provincial income tax	406.808	474.980
Total	\$1,734.974	\$1,936.894

Source: Tables 10-B and 20-B, Report of the Tri-Level Task Force on Public Finance, Vol. III, Appendix C.

---

Table 11-3

Surcharge on Income which Would be Necessary to Raise the  
Same Amount of Revenue as a 1% Flat Rate Tax on  
Gross Adjusted Income

Year	Rate (%)
1968	6.1
1969	5.5
1970	5.3
1971	5.2
1972	5.2
1973	5.3

Table 11-4

Flat Rate Tax on Net Income Necessary to Yield Revenue  
Equal to the Flat Rate Tax on Gross Income

Year	Rate (%)
1968	1.43
1969	1.41
1970	1.37
1971	1.34
1972	1.41
1973	1.48

Table 11-5

Projected Estimate of Revenue Yield From a 1% Flat-Rate Municipal  
Income Tax in Metro Toronto for 1974 to 1980

Year (1)	15% per year revenue increase (2)	10% per year revenue increase (3)	5% per year revenue increase (4)
		(millions of dollars)	
1974	\$144	\$138	\$131
1975	166	152	138
1976	191	167	145
1977	220	184	152
1978	253	202	160
1979	291	222	168
1980	335	244	176

Source: Estimated from Table 11-1.

While we have considered a number of equal yield alternatives, assuming the imposition of flat rate taxes, the income tax system could be made more progressive. For example, in the case of the 1% flat rate tax, one could devise a tax pattern where the individuals at the upper end of the income scale paid taxes in excess of 1% while those at the lower end paid taxes less than 1%. This would provide a greater element of progressivity with the same yield as the equal yield flat rate system outlined above.

Table 11-5 provides some projections<sup>44</sup> on expected tax revenue in Metropolitan Toronto based on three alternative scenarios namely, that revenue will increase at the rate of 15% per year, 10% per year or 5% per year. Table 11-6 indicates the rate of increase in provincial and federal taxes collected in Metropolitan Toronto and provides some basis for making the projections in Table 11-5.

In summary, a case may be made for adopting a municipal income tax either in place of or in addition to the standard property tax. The revenue yield is not inconsequential. Table 11-7 provides us with an estimate of the income tax revenue as a percentage of total municipal taxes collected in Metro. From this one can observe that the existence of a municipal income tax from 1968 to 1973 would have yielded more than 15 per cent of total local tax revenues in each year.

#### ii) Municipal Sales Tax

While some sales taxes are imposed at the intermediate stages of production or distribution, this study looked at the potential of a municipal sales tax imposed at the final or retail stage. Such a tax is a percentage of the final sale price of goods and services.

The imposition of a general or all inclusive retail sales tax is generally felt to be regressive, i.e. the amount of sales tax as a percentage of income is higher for the poor than for the rich. This is because a sales tax is a tax on consumption. Expenditures on consumption as opposed to savings or investment absorb a higher percentage of the incomes of low income recipients than of high income recipients. In order to eliminate some of the regressivity of a sales tax, a number of exemptions or exclusions from the tax are often provided. For example, in Ontario, food, children's clothing, medicine, services, etc. are exempted from sales taxation. While this improves the equity of the tax, it discriminates in favour of those individuals who either desire to or must spend a large portion of their income on the non-taxed goods

---

<sup>44</sup>1974 and 1975 are listed in the projected years since actual data were not available for those years at the time of writing.



Table 11-6

Rates of Increase in Provincial and Federal Income Taxes  
Collected in Ontario and in Metropolitan Toronto 1967 to 1973

Year	Metropolitan Toronto (%)	Ontario (%)
1967 to 1968	23.06	22.65
1968 to 1969	26.20	28.27
1969 to 1970	11.43	14.90
1970 to 1971	8.61	10.64
1971 to 1972	15.24	16.39
1972 to 1973	14.56	14.93
1973 to 1974	N.A.	16.15

Source: Calculated from Taxation Statistics, for each of the years 1967 to 1974. N.A. means not available at time of writing.

Table 11-7

Metropolitan Toronto Tax Revenue

Year (1)	Actual Municipal Tax Revenue Collected <sup>a</sup> (2)	Estimated Income Tax Revenue as a Percentage of Metro Total Tax Revenue Collected <sup>b</sup> (3)
	(millions of dollars)	(percentage)
1968	\$463.9	15.3
1969	495.5	16.6
1970	569.0	15.3
1971	570.5	16.3
1972	670.7	16.0
1973	678.4	18.4

a) Includes total taxes collected in Metropolitan Toronto as indicated in Municipal Financial Information, for each year.

b) This includes the income tax revenue from Table 11-1 as a percent of the actual tax revenue collected (Column 2 of this table) in Metropolitan Toronto.

or services. The existence of such exemptions clearly violates the neutrality criterion of any tax; that is to say, the tax is not imposed in a uniform manner on all goods and services. This is the type of conflict which arises in attempting to achieve both equity and neutrality. In the case of the Ontario retail sales tax, the policy makers have opted for greater equity at the expense of neutrality.

One positive feature of the sales tax may be that part of the burden of the tax can be shifted to people from outside the taxed locality (for example, tourists and commuters). The sales tax, therefore, offers a means of charging non-residents for at least part of the cost of providing such public goods as roads, street lighting, and police protection.

It is generally argued that an income tax is far more equitable and neutral than a sales tax and that it creates fewer distortions in society's consumption or production patterns than does a sales tax. As well, an income tax more accurately meets society's notion of equitable taxation, i.e. it is generally felt that individuals in higher income groups should pay a greater percentage of their income in taxes than individuals in lower income groups.

The introduction of a municipal sales tax would create a number of administrative problems. Perhaps the most serious of these would be how to collect it. It is frequently considered advantageous to have the senior government (in this case, the Ontario government) collect the local tax. However, this means that the local government must adopt the same tax base as the provincial government. Nevertheless, this method of collection reduces public collection costs and the costs of compliance borne by the retailers. A serious drawback to this method of collection is the fact that it reduces local control over the administration of the tax.

Further, if a sales tax is to be imposed at the local level, then according to the equity and efficiency criteria, a system will be needed whereby goods purchased will be taxed at the sales tax rate of the latter location. Such a system would be necessary, since wealthier people would be in a better position to avoid the tax (by travelling to untaxed regions to purchase a good taxed in the home locality).

As a general rule, the most equitable means of determining the rate of tax on an article purchased in one locality and used in another is to apply the rate of tax of the locality in which the article is to be used. Second, when an article is purchased in one community and taxed in that community, but used elsewhere, the sales tax charged should be refunded to the purchaser and the sales tax of

his own community, if any, imposed. These two considerations are consistent with the equity and neutrality principles but, as noted above, these two principles often come into conflict. For purposes of illustration, assume two cities have differential municipal sales tax rates. A resident of Metropolitan Toronto who bought a pair of shoes in Oshawa or Oakville and brought them home would be required to pay Metro Toronto's municipal sales tax. Obviously with the exception of high value items such as automobiles, it would be virtually impossible to devise a workable system to collect the sales tax on small items. Likewise, to give refunds for taxes paid on goods purchased within Metro and transferred out would create substantial administrative costs.

While not as lucrative a tax source as the income tax, a municipal sales tax would, nevertheless, yield a rather substantial sum of revenue. Table 11-9 provides an estimate of the potential revenue yield arising from the imposition of a 1% municipal sales tax in Metropolitan Toronto.<sup>45</sup> As with any estimate, a number of data sources must be perused and a number of assumptions made. In this case, it was particularly difficult to make highly accurate estimates due to the lack of specific data on expenditures on taxable items in Metropolitan Toronto. Nevertheless, through certain assumptions and the utilization of available data we were able to arrive at figures which indicate the potential range of revenue available to Metro for the years 1968 to 1980 from the imposition of a municipal sales tax.

Column 2 of Table 11-8 provides information on the total revenue generated in Ontario for the period from 1968 to 1974 from the general provincial sales tax. Column 3 lists the tax rate in existence for each of those years and Column 4 refers to the revenue which would have arisen from a sales tax of 1% rather than the rate actually in existence. Having determined the tax yield from a 1% general sales tax, the next step was to estimate the per capita sales tax revenue for Ontario for each of the above-mentioned years along with some indication of the per capita sales tax yield in Metropolitan Toronto. Table 11-9 is an attempt to do this. Column 2 of Table 11-9 gives the per capita yield for the Ontario government from a 1% sales tax. Columns 3 and 4 represent the per capita yield from residents of Metro Toronto based on one of two assumptions. In Column 3, it is

---

<sup>45</sup> The rate of 1% was chosen for two reasons. First, the rate is low enough that it will minimize the administrative problems existing when one municipality has a sales tax while neighbouring municipalities do not have such a tax. Second, it is similar to the rate in a number of U.S. cities where a sales tax is in existence. For a review of the U.S. municipal sales tax rates and the revenue yielded, see James A. Johnson, "New Tax Sources and Tax-Sharing for Canadian Municipalities," Canadian Tax Foundation, Report of the Proceedings of the Twenty-Fifth Tax Conference, Toronto, 1973, pp.604-605.

Table 11-8

Sales Tax Revenue for Ontario

Year	Total Sales Tax Revenue Collected in Ontario <sup>a</sup> (millions of dollars)	Provincial Sales Tax Rate <sup>b</sup>	Revenue from a 1% Sales Tax Rate <sup>d</sup> (millions of dollars)
(1)	(2)	(3)	(4)
1968	\$442.4	5%	\$84.9
1969	493.1	5%	98.6
1970	645.3	5%	129.1
1971	683.1	5%	136.6
1972	768.8	5%	153.8
1973	895.3	5% & 7% <sup>c</sup>	142.1
1974	1,314.8	7%	187.8

a) Figures obtained from Provincial Government Finance, Catalogue 68-207, various years, Table 10, Statistics Canada, Ottawa, Canada.

b) Obtained from Provincial and Municipal Finances, Canadian Tax Foundation, Toronto, Ontario.

c) 5% from Jan. 1 to April 30 and 7% from May 1 to Dec. 31. Weighted average for the year was 6.3%.

d) Column 4 equals column 2 divided by 5 for 1968-1972, column 2 divided by 6.3 (weighted average) for 1973 and column 2 divided by 7 for 1974.



Table 11-9

Estimated Revenue Yield for Metropolitan Toronto  
From a 1% General Municipal Sales Tax for 1968 to 1974

Year	Per Capita Yield From Ontario Sales Tax <sup>a</sup>	Per Capita Yield From Metro Toronto On Assumption That Expenditures are		Total Yield In Metro Toronto On Assumption That Expenditures are	
		5% higher than Ontario average	10% higher than Ontario average	5% higher than Ontario average	10% higher than Ontario average
(1)	(2)	(3)	(4)	(5) (000)	(6) (000)
1968	\$12.30	\$12.92	\$13.53	\$24,225	\$25,369
1969	13.94	14.64	15.33	28,050	29,372
1970	17.89	18.78	19.68	37,335	39,124
1971	18.50	19.43	20.35	39,734	41,616
1972	20.22	21.23	22.24	44,668	46,793
1973	18.61	19.54	20.47	40,682	42,619
1974	23.87	25.06	26.26	53,227	55,776

- a) Column 2 is obtained by dividing column 4 of Table 11-8 by the total population of Ontario for each of the years 1968 to 1974 as obtained from Summary of Financial Reports of Municipalities for 1968, 1969, 1970, 1971, 1972 and Municipal Financial Information for 1973 and 1974. Both sources are published by Treasury, Economics and Intergovernmental Affairs, Toronto, Ontario.
- b) Column 5 is obtained by multiplying column 3 and column 6 is obtained by multiplying column 4 by the population of Metro Toronto for each of the years 1968 to 1974. The source for this is the same as in footnote a).

assumed that per capita sales tax revenue in Metropolitan Toronto will exceed that of the rest of Ontario by 10%. Expenditure on taxable items tends to be higher in Toronto than in the rest of the province. The two percentages (5% and 10%) are chosen on the basis that per capita personal disposable income is 5 to 10 per cent higher in Metro Toronto than in the rest of Ontario and hence expenditures will be greater.<sup>46</sup> Columns 5 and 6 indicate the total yield from Metropolitan Toronto based on the fact that expenditures on taxable items and hence sales tax revenue is 5% or 10% higher.

While the potential yield of such a tax did not appear to be inconsequential, one must remember that the estimated yield is only as good as the underlying data and assumptions. The figures presented in Columns 5 and 6 indicate that the imposition of a 1% sales tax assessed on the same base as the provincial sales tax would have yielded between \$24 and \$26 million in 1968 and between \$53 and \$56 million in 1974. In terms of comparison with other studies it is interesting to note that Professor J.A. Johnson<sup>47</sup> estimated that a 3% sales tax in 1969 in Metro Toronto would have

46

Personal Disposable Income Per Capita

Year	Toronto	Ontario	Index = Toronto/Ontario
1969	2870	2732	1.05
1970	2990	2820	1.06
1971	3420	3130	1.09
1973	4030	3770	1.07
1974	4640	4360	1.06

Figures were not available for 1968 and 1972.

Source: The Municipality of Metropolitan Toronto: An Economic and Financial Survey, Table II-1, p. 9, Metropolitan Toronto, Toronto, Ontario, 1975.

47

J.A. Johnson, "New Tax Sources and Tax-Sharing For Canadian Municipalities," 1973 Conference Report, Canadian Tax Foundation, p. 607. Professor Johnson used a different data source for his estimate. He used Family Expenditure in Canada, 1969, Catalogue No. 62-536, and unpublished data from Statistics Canada on patterns of expenditure by family income for Toronto for 1969.

yielded approximately \$100 million. Our findings indicate that a 3% sales tax in Metro in 1969 would have produced between \$84 million and \$89 million. Consequently this study probably reflects a rather conservative estimate of the potential yield from the imposition of a municipal sales tax. To project future tax yield in Metro, the growth of Metro's population to 1980 had to be projected. While a number of projections exist, none are without difficulties. Hence a fairly simple approach is used here on the basis of annual growth rates from 1968 to 1974<sup>48</sup> it was assumed that Metro's population would continue to increase at approximately 3% per year.<sup>49</sup> Table 11-10 provides projected population figures based on 3 different assumptions. The next step is to estimate per capita tax yield increases from 1975 to 1980. Once again, the estimate is based on annual rates of increase

48

Population Growth Rates for Metropolitan Toronto

Year	Population in Metro (000)	Growth Rate (%)
1968	1875	-
1969	1916	2.19
1970	1988	3.76
1971	2045	2.87
1972	2104	2.89
1973	2082	-1.05
1974	2124	2.02

Source: Same as footnote a) of Table 11-9. With the exception of 1 year, the rate of growth is between 2 and 4%. Hence, we have chosen the mid-point of 3% as our yearly growth rate.

<sup>49</sup> Obviously, this rate would change if boundaries change, new commuter centres develop, etc.

Table 11-10

Projected Population Estimates for  
Metropolitan Toronto

Year	2% yearly increase in population	3% yearly increase in population	4% yearly increase in population
(1)	(2)	(3)	(4)
	(000)	(000)	(000)
1975	2166	2188	2209
1976	2209	2254	2297
1977	2253	2322	2389
1978	2298	2392	2485
1979	2344	2462	2584
1980	2391	2536	2687



for 1968 to 1974.<sup>50</sup> However, these rates of increase have ranged from a high of 28% to a low of 3% with one notable exception when sales tax revenue actually decreased.<sup>51</sup> Therefore, it was decided to estimate the annual yield for Metro Toronto based on both the assumption that per capita sales tax revenue would climb by 5% and the assumption that it would increase by 20%. Table 11-11 provides an estimate of the per capita sales tax yield on the assumption that expenditures on taxable goods and services in Metro are 5% higher than the average of the rest of Ontario. Table 11-12 provides a similar estimate on the assumption that expenditures in Metro exceed the average of the rest of Ontario by 10%. Although the range of potential revenue in 1980 is wide, these estimates do give some feeling for the yield if certain conditions hold. For example, few would argue that per capita sales tax revenue will rise by less than 5% annually and indeed there is ample evidence to assume that a more realistic figure would be in the range of 10 to 15 per cent. If this is true, the yield in 1980 could be in the order of \$120 to \$160 million in tax revenue for Metropolitan Toronto.<sup>52</sup>

50

Growth Rate of Per Capita Sales Tax  
Revenue in Ontario

Year	Percentage
1968 to 1969	13.33
1969 to 1970	28.34
1970 to 1971	3.41
1971 to 1972	9.30
1972 to 1973	-7.96
1973 to 1974	28.26

Source: Calculated from Column 2 of Table 11-9.

<sup>51</sup>This occurred in a year when the rate changed from 5 to 7% part way through the year.

<sup>52</sup>If one changed the underlying assumption about the population growth rate, i.e. if we assumed a 2% annual increase in population (instead of 3%), the revenue yield in 1980 would be \$5 to \$10 million less than our estimate. Similarly, if one assumed a population growth rate of 4% (yearly), the potential revenue yield would be \$5 to \$10 million higher than our estimates. Consequently, for every average annual change of 1% in population, from 1975 to 1980, the revenue estimate from a 1% sales tax in 1980 will change in the same direction by approximately \$5 to \$10 million.

Table 11-11

Estimated Revenue Yield of Municipal Sales Tax in Metro Based on a 1% Rate and That Expenditures in Metro will be 5% Higher than the Average of the Rest of Ontario<sup>a</sup>

Year	Estimated Per Capita Metro Tax Yield Assuming A Yearly Increase of:		Estimated Total Metro Tax Yield Assuming A Yearly Increase of:	
	5% <sup>b</sup>	20% <sup>c</sup>	5% <sup>b</sup>	20% <sup>c</sup>
(1)	(2)	(3)	(4)	(5)
			000	000
1975	\$26.31	\$30.07	\$57,566	\$ 65,793
1976	27.63	36.09	62,223	81,347
1977	29.01	43.30	67,361	100,543
1978	30.46	51.96	72,860	124,288
1979	31.98	62.36	78,735	153,530
1980	33.58	74.83	85,159	189,769

- a) This table assumes: i) the tax base for 1975 to 1980 will be consistent with the tax base in 1974; ii) that expenditures in Metro will be 5% higher than the average expenditures in the rest of Ontario; iii) that population in Metro will increase by 3% per year from 1975 to 1980.
- b) Column 2 is an extension of column 3 of Table 11-9 assuming that per capita tax yield will rise by 5%. Column 4 is obtained by multiplying column 2 of this table by column 3 of Table 11-10.
- c) Column 3 is an extension of column 3 of Table 11-9 assuming that per capita tax yield will rise by 20%. Column 5 is obtained by multiplying column 3 of this table by column 3 of Table 11-10.

Table 11-12

Estimated Revenue Yield of Municipal Sales Tax in Metro  
Based on a 1% Rate and that Expenditures in Metro will  
be 10% Higher than the Average of the Rest of Ontario<sup>a</sup>

Year	Estimated Per Capita Metro Tax Yield Assuming A Yearly Increase of:		Estimated Total Metro Tax Yield Assuming A Yearly Increase of:	
	5% <sup>b</sup>	20% <sup>c</sup>	5% <sup>b</sup>	20% <sup>c</sup>
(1)	(2)	(3)	(4)	(5)
			000	000
1975	\$27.57	\$31.51	\$60,323	\$ 68,944
1976	28.95	37.81	65,253	85,224
1977	30.40	45.38	70,589	105,372
1978	31.92	54.45	76,353	130,244
1979	33.52	65.34	82,526	160,867
1980	35.19	78.41	89,242	198,848

- a) This table assumes: i) the tax base for 1975 to 1980 will be consistent with the tax base in 1974; ii) that expenditures in Metro will be 10% higher than the average expenditures in the rest of Ontario; iii) that population in Metro will increase by 3% per year from 1975 to 1980.
- b) Column 2 is an extension of column 4 of Table 11-9 assuming that per capita tax yield will rise by 5%. Column 4 is obtained by multiplying column 2 of this table by column 3 of Table 11-10.
- c) Column 3 is an extension of column 3 of Table 11-9 assuming that per capita tax yield will rise by 20%. Column 5 is obtained by multiplying column 3 of this table by column 3 of Table 11-10.

In comparison with the actual local tax revenue collected in Metro Toronto for 1968 to 1974, a 1% municipal sales tax would have yielded between 6% and 7% of the total taxes collected in each of those years. Therefore a municipal sales tax could be used to either replace part of the property tax or supplement property tax revenues.

While the potential revenue yield outlined above is based on the assumption that Metro would employ the same sales tax base as that used by the Ontario government, one could structure a municipal sales tax to include the taxation of food or the exemption of certain items not currently exempted from the sales tax or the provision of a specific and further tax credit. For example, some authors<sup>53</sup> have suggested that tax credits of a specific dollar amount be given to taxpayers. Obviously the inclusion of a further tax credit by the municipal government would reduce the revenue yield and further complicate the system. It is felt that the Ontario sales tax credit system along with the items exempted from sales taxation reduces a substantial amount of the regressivity inherent in a general sales tax. Therefore, in the interests of simplicity, it is recommended that a municipal sales tax, if adopted, be adopted at a low rate and on the same basis as the provincial sales tax.

### iii) Municipal Automobile License Fees and Road User Fees

The rationale underlying automobile license and registration fees, and user charges in general, is that the people who benefit from certain expenditures, e.g. car drivers should be the people who bear the burden of their cost. A system whereby those who benefit are those who pay has two significant advantages: first, under such a system, charges can be made to match closely the cost of the goods or services provided; and second, because charges can closely match costs, such a benefit-based system of assessment "... can be neutral with respect to the allocation of resources and the distribution of income: it need not alter either."<sup>54</sup> The main disadvantage of the benefit system when applied to essential services is that it absorbs more of the income of lower income people than of higher-income people and is therefore regressive in its impact.

There are three main categories of people who, according to the benefit principle should be expected to contribute revenues for road and road related expenditures. These include members of the general public, property owners, and motor vehicle users. The case for the tax liability of

---

<sup>53</sup>Specifically, see J.A. Johnson, "New Tax Sources and Tax-Sharing for Canadian Municipalities," 1973 Conference Report, Canadian Tax Foundation, p. 608.

<sup>54</sup>Nancy Bryan, More Taxes and More Traffic, Toronto: Canadian Tax Foundation, September 1972, p. 1.



members of the first and second categories perhaps needs some explanation. The member of the general public is held to be liable for road costs by virtue of the fact that he benefits indirectly from roads, whether or not he operates a vehicle on these roads (e.g. he benefits from fire and police protection, and garbage collection, services which require the use of roads). Property owners are deemed to benefit from expenditures on roads, whether or not they use them directly, by virtue of the fact that roads generally enhance the value of adjacent property, by providing owners (and potential buyers) of this property with more convenient access to other areas and services. On the other hand, in an urban area the effects of road construction and use on a property may be negative. The latter argument may be used to rationalize payments from motor vehicle users to non-users of motor vehicles, although this is more difficult to support let alone measure.

While one can make a case for charging the three groups of beneficiaries, it is difficult to pro-rate the costs among them. But this neednot preclude policy makers from placing a charge on the actual users. In Ontario, the practice has been to charge vehicle registration fees that vary according to the number of cylinders in the vehicle (for passenger cars) and vehicle weight (for commercial vehicles). The practice is followed on the assumption that the heavier and more powerful the vehicle, the greater its costs in road wear and maintenance.

One problem resulting from the imposition of a municipal charge in addition to the provincial motor vehicle registration fee revolves around the actual rate and the base on which this rate is to be applied. To minimize the administration and collection costs, the municipal charge should take the form of a surcharge on the provincial fee. Such an arrangement reduces local autonomy in that the municipality must accept the same policy (and base) as the provincial government. As well, any such charge imposed by local government must be low enough that it does not result in many people registering their motor vehicles in adjacent localities where no municipal surcharge exists. Indeed to make such a surcharge as equitable as possible for all vehicle owners in the municipality, it might be necessary to require residents to register their vehicles in that municipality. This, however, could lead to administrative complexities and inefficiencies.

From a local policy-maker's point of view, perhaps the main, if not only, attraction of such a charge is the potential revenue yield from such a tax. Table 11-13 provides an estimate of the revenue yield from the imposition

of a modest surcharge on motor vehicle registration fees.<sup>55</sup>

The figures in Table 11-13 do not differentiate among sizes of vehicles. The most equitable system would employ a graduated rate scale, based on the number of cylinders (for example, four cylinder vehicle owners might be charged \$2.50, six cylinder vehicle owners \$3.50, and eight cylinder vehicle owners \$4.50-\$5.00). A graduated scale might be adopted on the assumption that larger cars are a reasonable indication of income level (i.e. the bigger the car, the higher the income), or it may be adopted for energy considerations (e.g. larger cars used more energy, and therefore their owners should be charged more) or it may be adopted because larger vehicles presumably cause greater wear and tear on roads and highways. Hence, in Table 11-13 motorcycles bear the least surcharge while commercial vehicles such as trucks bear the greatest surcharge.

Since figures for the number of passenger vehicles, commercial cars, buses, trucks, etc. and motorcycles were only available for Ontario (and not for Metropolitan Toronto), the number of these vehicles in Metropolitan Toronto had to be estimated.<sup>56</sup> This estimate was arrived at in the following way. First, figures from Statistics Canada's annual publication entitled The Motor Vehicle were obtained which showed the average number of people per registered motor vehicle in Ontario, for each year from 1953 to 1973. These numbers fitted closely to a decreasing second-degree function having the equation  $Y = 3.462 - .0657X + .000444X^2$ , where X is the year number starting from the year 1953 (which equals 1). The function was used to extrapolate figures for the average number of people per registered motor vehicle in Ontario for the years 1974 to 1980. This same figure was assumed to apply to Metropolitan Toronto. Second, population of Toronto was projected for the years 1975 to 1980 using a 3% per year rate of increase (based on yearly increases from 1967 to 1974 inclusive). Third, the number of motor vehicles in each category as listed in columns 2, 4 and 6 of Table 11-13 was estimated in the following way. The number of registered motor vehicles (in total) was estimated for Metro Toronto by dividing the population in Metro by the number of people per

---

<sup>55</sup> The surcharge was kept low so as to minimize unwanted spill-overs which might result from outside registration. The rate structure chosen approximates that of Newfoundland. The Newfoundland Local Government Act permits an annual levy of \$2.50 to \$5.00 for private vehicles and \$5.00 to \$10.00 for vehicles offered for hire or reward. See Canadian Tax Foundation's Provincial and Municipal Finances, Toronto, 1975, p. 113.

<sup>56</sup> Figures which were available only covered the years 1969 to 1973 and even this coverage was limited (e.g. motorcycles were not included).

Estimated Revenue from Registration Fee Surcharges for Metropolitan Toronto<sup>1</sup>

Year (1)	Estimated Passenger Cars (2)	\$3.00 Fee (3)	Estimated Commercial Cars & Trucks (4)	\$10.00 Fee (5)	Estimated Motorcycles (6)	\$1.00 Fee (7)
1968	641,770	1,925,310	105,028	1,050,280	12,658	12,658
1969	651,119	1,953,357	107,282	1,072,820	10,378	10,378
1970	674,036	2,022,108	111,546	1,115,460	11,840	11,840
1971	729,956	2,189,868	119,455	1,194,550	14,213	14,213
1972	774,681	2,324,043	129,397	1,293,970	15,697	15,697
1973	799,577	2,398,731	154,820	1,548,200	16,566	16,566
1974	807,682	2,423,046	140,841	1,408,410	16,975	16,975
1975	833,568	2,500,704	148,281	1,482,810	18,039	18,039
1976	898,650	2,695,950	160,719	1,607,190	19,856	19,856
1977	924,834	2,774,502	166,639	1,666,390	20,827	20,827
1978	951,832	2,855,496	172,490	1,724,900	21,813	21,813
1979	1,028,650	3,085,950	187,409	1,874,090	23,956	23,956
1980	1,058,779	3,176,337	193,865	1,938,650	25,028	25,028

<sup>1</sup>Actual figures for the Metropolitan Toronto area exist for passenger vehicle and commercial vehicle registrations. (Data available on passenger cars and commercial vehicle for 1969 to 1973 from the Program Planning Office, Ministry of Transportation and Communications). However, the category "Passenger Vehicles" excludes station wagons and vans used for commercial purposes (unlike the Statistics Canada figures). and the category "Commercial Vehicles" includes only trucks and buses.

Source: Estimates of Vehicles based on data obtained from Statistics Canada, The Motor Vehicle, Catalogue No. 53-217, 53-219. The rate structure employed is similar to that authorized by the Local Government Act in Newfoundland.

registered motor vehicle in Metro (which was assumed to be equal to the figure for Ontario). This figure was multiplied by the ratio of motor vehicles in each category (i.e. passenger cars or commercial vehicles or motorcycles) in Ontario to total motor vehicles in Ontario. Obviously, this assumes that the percentage of passenger cars to total motor vehicles in Metro will be identical to that in the entire province, an assumption which may not be entirely accurate but one which must be made in the absence of accurate data. Finally, some indication of potential revenue was obtained by assuming that a specific municipal charge would be levied on motor vehicles and multiplying this by the number of vehicles (in each category) in Metro for each of the years considered. Columns 3, 5 and 7 provide this information.

With a surcharge of \$3.00 on passenger cars, \$10.00 on commercial vehicles, and \$1.00 on motorcycles, the total revenue estimated for 1968 was slightly under \$3 million rising to \$3.8 million in 1974 and projected to reach \$5.1 million in 1980.<sup>57</sup> Compared with a municipal sales tax or municipal income tax for the same years, a charge on the motor vehicles yields considerably less revenue. In fact, had such a municipal motor vehicle surcharge been introduced, the revenue generated would have been slightly more than one-half of one per cent of the total municipal taxes collected in the Metro system in each of the years 1968 to 1974. Obviously then, a municipal charge on motor vehicles would yield little in the way of revenue for Metropolitan Toronto.

One of the major user charges imposed by the provincial government is the motive fuel tax. Although the motive fuel tax base has the potential to provide considerably more revenues (see Table 11-14) than a vehicle registration surcharge, it is doubtful that this potential could ever be efficiently or equitably realized at the municipal level. While a motor vehicle registration surcharge can be collected when licenses are being renewed, a municipal motive fuel tax would have to be collected by fuel retailers all year round. This tax would impose a heavy burden, not only on those required to pay the tax, but also on those who would have to collect it and keep records on it. Furthermore such a tax could not be neutral since people would tend to travel to untaxed regions to purchase their fuel. This would put Metro Toronto motive fuel dealers at a competitive disadvantage. The higher the tax, the greater the disadvantage.

---

<sup>57</sup> To calculate the potential revenue yield of different rates, multiply the particular rate by the number of vehicles and add up the revenue for all three categories.



Table 11-14

Estimated Revenue from a 1¢/gal. Surcharge in Metropolitan Toronto

Year	Estimated Revenue from 1¢/gallon Surcharge on Passen- ger cars <sup>1</sup>	Estimated Revenue from 1¢/gal. Sur- charge on Commercial Vehicles <sup>2</sup>	Estimated Revenue from 1¢/gal. Sur- charge on Motor- cycles <sup>3</sup>
(1)	(2)	(3)	(4)
1968	\$ 2,431,971	\$ 4,758,389	\$ 20,253
1969	2,467,398	4,860,509	16,605
1970	2,554,242	5,053,693	18,944
1971	2,766,149	5,412,017	22,741
1972	2,935,633	5,862,449	25,115
1973	3,029,976	7,014,261	26,506
1974	3,060,690	6,380,930	27,160
1975	3,158,784	6,718,006	28,862
1976	3,405,411	7,281,520	31,770
1977	3,504,634	7,549,731	33,323
1978	3,606,942	7,814,816	34,901
1979	3,898,042	8,490,735	38,330
1980	4,012,215	8,783,230	40,045

<sup>1</sup>Based on gallonage estimates derived from a 19¢/imperial gallon Ontario gasoline tax and estimated average annual fuel tax payment of \$72.00 per passenger vehicle. The revenue is based on the number of passenger cars estimated in column 2 of Table 11-13.

Source: Statistics Canada, The Motor Vehicle, Rates and Regulations.

<sup>2</sup>Based on gallonage estimates derived from a 19¢/imperial gallon Ontario gasoline tax and a 25¢/imperial gallon Ontario diesel fuel tax (mean = 22¢/gallon) and estimated average annual fuel tax payment of \$996.73 per commercial vehicle (for owners of small, medium, and large trucks and buses, both diesel and gasoline fuelled). The revenue is based on the number of commercial vehicles estimated in column 4 of Table 11-13.

Source: Statistics Canada, The Motor Vehicle, Rates and Regulations.

<sup>3</sup>Based on the assumption that average miles per gallon is 50, annual mileage travelled is 8,000, annual motor fuel consumption is 160 imperial gallon. The revenue is based on the number of motorcycles estimated in column 6 of Table 11-13.

Table 11-14 provides estimates arising from a tax of one cent per gallon on passenger cars (column 2), commercial vehicles (column 3), and motorcycles (column 4). Such a tax would have yielded approximately \$7.2 million in 1968, some \$3.4 million more than a municipal surcharge on motor vehicle registrations. The yield for 1974 and 1980 would be \$9.5 million and \$12.8 million respectively (\$4.4 million and \$7.8 million more than a municipal surcharge on the motor vehicle registration fee for 1974 and 1980 respectively). Once again the potential revenue yield is minimal compared with a municipal sales tax and/or a municipal income tax. In fact, it would amount to around 1.5 per cent of the total municipal taxes collected in the Metro system for each of the years 1968 to 1974.

iv) Municipal Liquor Sales Tax

There are three main arguments commonly offered as justifications for taxing liquor. These are: alcoholic beverages are luxuries and therefore tax levies on such beverages are justifiable under the ability to pay principle; taxes on alcoholic beverages are generally excellent revenue generators; and, taxation on alcoholic beverages should be used to control their consumption and help pay for the costs to society which result from it.

The weight of the first argument can be assessed by examining the proportion of the incomes of different income groups spent on taxes on alcoholic beverages. Such an examination reveals that levies on alcoholic beverages are generally proportional to income up to the \$15,000 category, but regressive in the \$15,000 and over category.<sup>57</sup> Specifically, Professor James A. Johnson found that the "...pattern for beer is slightly progressive up to \$6,000 and regressive above this level. For spirits and wine, the pattern is slightly regressive below \$5,000, slightly progressive from \$5,000 to \$12,000, and roughly proportional above this level." Hence, it appears that "The total tax burden is, on balance, regressive" with the tax on beer being the most regressive, especially at high incomes.<sup>58</sup> Thus, it cannot be said that taxes on alcoholic beverages conform to the ability to pay principle. Since low income people will tend to pay a greater fraction of their income in taxes on alcoholic beverages than will higher income people, such a tax would violate the requirements of the equity principle (particularly, the principle of vertical equity, which calls for unequal treatment of unequals, viz. the poor should pay less of their incomes in taxes than the wealthy).

It is obvious that tax levies on alcoholic beverages are a lucrative source of revenue. In 1970, approximately 62% of total provincial revenue from alcoholic beverages was derived from spirits, 27% from beer and 11% from wine, including sales tax.<sup>59</sup> Johnson's study indicates

<sup>57</sup> James A. Johnson, "Canadian Policies in Regard to the Taxation of Alcoholic Beverages," in Canadian Tax Journal, Toronto: Canadian Tax Foundation, Vol. XXI, No. 6, November-December, 1973, p. 556. See also W.I. Gillespie, "The Incidence of Taxes and Public Expenditures in the Canadian Economy," Studies of the Royal Commission on Taxation (Study No.2), Ottawa: Queen's Printer, 1964. Proportional implies that an individual spends the same proportion of his income on taxes on alcoholic beverages regardless of his income level. Progressive means that he pays a greater proportion as his income increases and regressive means that he pays a smaller proportion as his income increases.

<sup>58</sup> James A. Johnson, op.cit., p. 559.

<sup>59</sup> Ibid., p. 554.

that the demand for spirits is affected most (out of the three main categories: spirits, beer and wine) by price changes (e.g. increases in taxes), and the demand for beer will be affected to a lesser degree than the demand for spirits but to a greater degree than the demand for beer.<sup>60</sup> It should be noted that "....revenue from alcoholic beverages is derived in Ontario from three principal sources: the Liquor Control Board mark-up, taxes and fees on sales of Canadian wine and beer, and license and related fees. The all-important base on which the revenue system operates is sales, whether for off-premises consumption or for ultimate consumption on licensed premises."<sup>61</sup>

Finally, some observers have stated that the controlling effect of the present taxes on the consumption of alcoholic beverages is not as great as it could be. Furthermore, while a tax on alcoholic beverages should take account of "negative externalities," it has been noted that revenues from such taxes in Canada probably do not adequately cover these externalities. Negative externalities include: "1) medical costs to the public for the treatment of alcoholic psychoses and other illnesses associated with excessive drinking; 2) property damage due to accidents; 3) crime; 4) productivity losses due to disability and premature death; 5) government expenditures on welfare, research on problems of alcohol, rehabilitation centers for alcoholics, etc."<sup>62</sup> Because of the negative externalities occasioned by excessive consumption of alcohol, the Ontario Committee on Taxation recommended that "The financial basis of the agreements whereby municipalities receive payments from the Liquor Licence Board be adjusted so that such payments will reflect as closely as possible the cost to the municipalities of enforcing the Liquor Control Act and the Liquor Licence Act."<sup>63</sup> It has been observed that if alcoholic beverages are to be taxed according to their intoxicating effects (in an attempt to account for the negative externalities noted above), then they should be taxed on the basis of their alcoholic content.<sup>64</sup> A Swedish researcher suggests that the "....intoxication effect associated with beer,

<sup>60</sup> Ibid., p. 559. See also J.H.A. Haber and C.A. Lamont, A Study of Certain Factors Affecting Beer Consumption in the Maritimes, 1957-69, Fredericton, N.B. The Research and Productivity Council, 1970, and W.A. Niskanen, The Demand for Alcoholic Beverages: An Experiment in Econometric Method, Rand Corporation Mimeo, 1962.

<sup>61</sup> Report of the Ontario Committee on Taxation, op.cit., p. 388.

<sup>62</sup> Johnson, op.cit., p. 560.

<sup>63</sup> Report of the Ontario Committee on Taxation, op.cit., p. 397.

<sup>64</sup> James A. Johnson and Ernest H. Oksanen, "Socioeconomic Determinants of the Consumption of Alcoholic Beverages," Journal of Applied Economics, Great Britain: Chapman and Hall Ltd., 1974.



table wine, fortified wine, and spirits is in the ratio of 10:16:22:31.<sup>65</sup> This contention is supported by the Alcoholic Beverage Study Committee.<sup>66</sup> The Committee's rationale for a progressive price schedule (due to progressive tax rates) is based on the assumption that negative externalities increase with concentration of alcohol in alcoholic beverages. In addition, the tax policy of other governments has been to favour low alcohol-content beverages over higher alcohol-content beverages.<sup>67</sup>

Assuming that an ounce of alcohol has the same effect on a drinker regardless of the form in which it is taken, the Addiction Research Foundation advocated that the prices of fortified wine should be doubled and the price of beer should be increased by 50% "...so that the price of a unit of alcohol would be the same for all beverages."<sup>68</sup> However, a valid objection to this system is that if the prices of fortified wine and beer are raised, people may switch to consumption of spirits, thus causing greater consumption of absolute alcohol.

Johnson notes that when it is assumed that an ounce of alcohol has the same deleterious effect, regardless of the form in which it is taken, it follows that either the taxes on beer and wine should be raised, or the taxes on spirits should be lowered. An important result is that if the taxes on beer and wine were increased, total alcoholic beverage tax revenues could be expected to increase. If this increased taxation were to cause a shift in demand to spirits, total tax revenues could also be expected to increase.<sup>69</sup>

It seems clear that of the three criteria outlined as major bases for the taxation of alcoholic beverages, the control aspect and the revenue aspect are perhaps the most important. However, in terms of a municipal

---

<sup>65</sup> David Isaksson, "Rationalization of Alcohol Taxation," in The Development of Control Policies for Alcoholic Beverages in Sweden, Ottawa: Brewers' Association of Canada, 1972, cited in Johnson, p. 561.

<sup>66</sup> Report of the Alcoholic Beverage Study Committee, Beer, Wine, and Spirits: Beverage Differences and Public Policy in Canada, Ottawa: Brewers' Association of Canada, 1973.

<sup>67</sup> Johnson, op.cit., p. 562.

<sup>68</sup> R.E. Popham, W. Schmidt, and J. de Lint, "The Prevention of Alcoholism: Epidemiological Studies of the Effects of Government Control Measures," in Law and Drinking Behaviour, J.A. Ewing and B.A. Rouse, eds., Chapel Hill.

<sup>69</sup> Johnson, op.cit., p. 563.

surtax on liquor sales, the revenue aspect is perhaps the most important, since effective control of alcoholic beverage consumption clearly lies outside the powers of municipal government. In considering a municipal surtax on alcohol i.e. beverages for the Metropolitan Toronto area, it should be kept in mind that any surtaxes considered should not be so that they result in people purchasing alcoholic beverages in outlying non-surtax areas. This would impose a competitive disadvantage on commercial vendors of alcoholic beverages in Metropolitan Toronto. An excessively steep municipal surtax may also have the undesirable effect of stimulating bootlegging and perhaps even the private manufacture of liquor in the Metro area. It is urged, therefore, that if any municipal surtax on alcoholic beverages is implemented, it be kept low, perhaps in the 1 to 5 per cent range. It might also be necessary to impose different rates on each of the three main categories of alcoholic beverages. This would be consistent with the observations of Johnson and Oksanen, who observe that in Canada, "If alcoholic beverage taxes are levied to maximize revenue, the short-run coefficients indicate that taxes should be raised on all three beverages, but that the largest increase should be for beer and the smallest for spirits."<sup>70</sup>

From a municipality's point of view, one rather attractive feature of a municipal surcharge on liquor sales is that it is easily collected and the added bother to retailers is relatively insignificant (i.e., all that would have to be done is to raise the price of each article by the rate of tax). Such a surtax would impose no more inconvenience on retailers than a sales tax.

Table 11-15 provides an estimate<sup>71</sup> of the revenues which could have been generated by a one per cent tax on liquor sales in Metropolitan Toronto for the years 1968 to 1974.

---

<sup>70</sup> Johnson and Oksanen, op.cit., p. 300.

<sup>71</sup> The estimates presented in Table 11-15 and 11-16 correspond closely with those implicit in the 1974 figure for per capita liquor sales for the Toronto area (\$118 vs. our \$122) presented in Financial Times of Canada, Tax move can hurt provinces." July 12, 1976, p. 7.

Estimated Revenue from a One Per Cent Municipal Surtax on Liquor Sales in Metropolitan Toronto, 1968 to 1974

Year <sup>1</sup>	Total Sales Ontario <sup>2</sup> (\$000)	Population Ontario <sup>3</sup> (000)	Per Capita Sales Ontario <sup>4</sup> (\$)	Metro Toronto Index <sup>5</sup>	Est. Per Capita Liquor Sales in Metro Toronto <sup>6</sup> (\$)	Population in Metro Toronto <sup>3</sup> (000)	Estimated Liquor Sales in Metro Toronto <sup>7</sup> (\$000)	Est. Revenue fr. 1% Tax on Liquor Sales in Metro Tor <sup>8</sup> (\$000)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1968	559,759	6,904.3	81.07	n.a.	N.A.	1,874.6	N.A.	N.A.
1969	654,500	7,073.7	92.53	1.05	97.16	1,916.1	186,168.2	1,861.7
1970	647,450	7,215.5	89.73	1.06	95.11	1,988.4	189,119.6	1,891.2
1971	697,365	7,383.3	94.45	1.09	102.95	2,045.5	210,579.1	2,105.8
1972	790,158	7,605.0	103.90	n.a.	N.A.	2,104.4	N.A.	N.A.
1973	884,145	7,634.9	115.80	1.07	123.91	2,081.7	257,946.4	2,579.5
1974	966,892	7,867.9	122.89	1.06	130.26	2,124.1	276,684.6	2,766.8

n.a. = not available

N.A. = not applicable

<sup>1</sup>Years refer to Canadian and Ontario government fiscal years, e.g. the year 1968 refers to the period from April 1, 1967 to March 31, 1968.<sup>2</sup>Total liquor sales figures for Ontario (column 2) were obtained from Statistics Canada's The Control and Sale of Alcoholic Beverages in Canada, Catalogue No. 63-202, 1968-73.<sup>3</sup>Population figures for Ontario (column 3) and Metro Toronto (column 7) were obtained from Ministry of Treasury, Economics and Intergovernmental Affairs, Municipal Financial Information, Toronto, 1968-1974.<sup>4</sup>Figures obtained by dividing column 2 figures by column 3 figures.<sup>5</sup>Column 5 is an index obtained by calculating the ratio of per capita personal disposable income of Toronto residents to per capita personal disposable income of Ontario residents. Column 5 Source: The Municipality of Metropolitan Toronto: An Economic and Financial Survey, Table 11-1, p. 9, Metropolitan Toronto, Toronto, Ontario, 1975.<sup>6</sup>Figures obtained by multiplying column 4 figures by column 5 figures.<sup>7</sup>Column (6) figures multiplied by column (7) figures.<sup>8</sup>1% of column (8) figures.

This tax was assumed to be levied at the rate of one per cent on the full price of the article being purchased<sup>72</sup> (i.e. a one per cent levy on the price including the L.C.B.O. mark-up and all other federal and provincial taxes). These estimates were obtained in the following manner. First, per capita sales figures were calculated for Ontario for each of the years from 1968 to 1974 inclusive. These figures were then multiplied by an index which reflects the fact that per capita disposable income in Metro Toronto tends to be higher than the Ontario average. Hence, column (6) shows estimated per capita sales of liquor in Metro (i.e. column (4) multiplied by column (5)). Column (8) shows estimated total liquor sales for Metro Toronto, arrived at by multiplying the column (6) figure (per capita liquor sales for Metro) by the column (7) figure (population of Metropolitan Toronto). Finally, column (9) shows the estimated revenue from a 1% tax on liquor sales in the Metro area (i.e. column (9) figures represent 1% of column (8) figures for each year).

Table 11-16 provides some rough projections of the revenue which might be generated from a 1% tax on liquor sales in Metropolitan Toronto for the years 1975 to 1980 inclusive. The figures in this table were calculated using the same methodology as in Table 11-15. However, total sales of liquor were estimated for those years by assuming an average growth rate of 9.7% per year (which is approximately the average growth rate over the period 1968 to 1974). The population of Ontario was projected to 1980 using a 2% per year rate of growth. The index reflecting the ratio of Metro's average per capita disposable income to that of Ontario was kept at the 1.05 level. The population of Metro was estimated using a rate of growth of 3% per year. Hence, column (9) of Table 11-16 estimates the revenues which might occur in future years from a 1% tax on liquor sales in Metropolitan Toronto.

---

<sup>72</sup> Due to the unavailability of suitable information, the revenue analysis ignores sales of liquor through liquor licenses, and therefore, a large amount of revenue or potential revenue is unaccounted for. Our analysis, then, deals only with the sales of liquor through Liquor Control Board of Ontario stores, brewers' and wineries' retail stores, and brewers' warehouses. To impose the municipal surtax on licensed establishments would seem to be a fairly simple matter; that is, the surtax would merely have to be added to the sales tax rate imposed on sales of alcoholic beverages in these establishments. However, as may be expected, problems sometimes arise in collecting receipts from all licensees. The feasibility of a tax on alcoholic beverages sold in licensed establishments would therefore have to be studied in greater detail than is possible here.



Table 11-16

Projected Revenue from a One Per Cent Municipal  
Surtax on Liquor Sales in Metropolitan Toronto, 1975 to 1980

Year	Estimated Total Sales Ontario <sup>1</sup> (\$)	Estimated Population Ontario <sup>2</sup>	Estimated Per Capita Sales Ontario (\$)	Metro Toronto Index	Estimated Per Capita Sales Metro Toronto (\$)	Estimated Population Metro Toronto <sup>3</sup>	Estimated Sales Metro Toronto (\$)	Estimated Revenue From 1% Tax on Sales, Metro Toronto (\$)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1975	1,060,453,281	8,025,231	132.14	1.05	138.75	2,187,818	303,559,748	3,035,598
1976	1,163,068,016	8,185,735	142.08	1.05	149.18	2,253,452	336,169,969	3,361,700
1977	1,275,612,264	8,349,450	152.78	1.05	160.42	2,321,056	372,343,804	3,723,438
1978	1,399,046,853	8,516,439	164.28	1.05	172.49	2,390,688	412,369,773	4,123,698
1979	1,534,425,588	8,686,768	176.64	1.05	185.47	2,462,408	456,702,812	4,567,028
1980	1,682,904,242	8,860,503	189.93	1.05	199.43	2,536,281	505,810,520	5,058,105

<sup>1</sup>Based on a 9.7% per year rate of growth which is the average rate of growth in sales over the period 1968 to 1974.

<sup>2</sup>Based on a 2% per year rate of growth.

<sup>3</sup>Based on a 3% per year rate of growth.

Tables 11-15 and 11-16 indicate that the revenue from a one per cent surtax may not be large. Indeed, it would amount to roughly \$2.8 million in 1974 and \$5.1 million in 1980, an amount which is not very significant in terms of the overall municipal revenue picture. This would have amounted to less than one-half of one per cent of the total tax revenue collected in the Metro system from 1968 to 1974. However, as noted above, it may be desirable to have a scale of rates (e.g. from 1% to 5%) for different types of alcohol. This would raise revenues, although not very significantly, unless, of course, the increase in rates was substantial, in which case consumers would probably find means of reducing their demand, either by purchasing in non-taxed communities or producing alcoholic beverages themselves.

v) Municipal Hotel Room Tax

The rationale for establishing a municipal hotel room tax is that it is one means of capturing payments from non-residents who use a municipality's services to help cover part of the costs of providing them (e.g. street lights, roads, parking).<sup>74</sup> This, of course, assumes that most users of hotel rooms are, in fact, non-residents. To the extent that residents of the municipalities use hotel rooms in that municipality they would be disadvantaged because they would be taxed twice (i.e. by the property tax on their normal residence as well as by the hotel room levy). However, the magnitude of this problem is thought to be minimal.

On equity grounds, there tend to be few objections to a hotel room tax primarily because those who use hotels are frequently those who can best afford to pay a little more for accommodation. As well, with a large number of hotel users being businessmen (with expense accounts), the added expense caused by a hotel room tax would be borne (at least in part) by the employers of those businessmen. (The objection could be raised that businesses will deduct these added expenses from their income tax payable, thereby passing a portion of the burden of the tax to all other taxpayers. The aggregate effect of this would tend to be rather slight).

---

<sup>74</sup> John F. Due has advocated a hotel room tax, as well as taxes on other services, on the basis of the revenue generating potential of these taxes, as well as on the grounds that taxes on services would simplify the sales tax system by eliminating the need for distinguishing between services and commodities. See John F. Due, Provincial Sales Taxes, Toronto: Canadian Tax Foundation, 1964.

One argument frequently cited in favour of a hotel room tax is that it could be implemented with a minimum amount of administrative cost. A hotel room tax levy would impose no more burden of inconvenience or expense from collection than the ordinary sales tax on hotel rooms now collected by the province. The simplest method of collections would be to have hoteliers forward all tax receipts (including provincial sales tax receipts) to the Ontario government which would then make payments to the municipality imposing the hotel room tax, equal to the amount of collections from such a tax. Alternatively, the receipts from a hotel room levy could be forwarded directly by the hoteliers to the municipal government, although this would probably inconvenience hoteliers to a greater extent. The latter approach, however, has the desirable advantage of putting control of the tax entirely in the hands of the municipality which imposes the tax.

It is difficult to ascertain what effect a hotel room tax would have on the occupancy rates of hotels in Metropolitan Toronto. In fact if such a tax were imposed in Metro under conditions existing in 1976, the results could be decidedly adverse if the tax rates were high, since occupancy rates declined significantly after 1974.<sup>75</sup> Although this slump was attributed to the adverse economic conditions prevailing in 1975 and 1976 and an over-supply of new hotel accommodations, it should be taken as an indication that all the ramifications of a hotel room tax must be studied in detail before such a tax is imposed. Specifically, a detailed analysis of the elasticity of demand for hotel accommodation would be necessary.

It is possible that a hotel room tax in Metropolitan Toronto would cause visitors to this area to seek accommodations in outlying, non-taxed regions. This would necessitate their commuting into the Toronto area (assuming this to be their initial objective), thus increasing traffic congestion. This situation would cause the burden of the tax to be borne not only by the hoteliers deprived of business. The burden of the tax can also be said to fall on users of vehicle routes which become congested because of such commuting. This, of course, is an extreme case; one which is unlikely to occur if the hotel room tax rate imposed is rather low perhaps in the order of five per cent.<sup>76</sup>

---

<sup>75</sup> See: The Toronto Star, "Metro building boom is a bust in housing," Saturday, January 31, 1976, p. F4; The Toronto Star, "Why hotels are crying the blues," Saturday, March 20, 1976, p.1 and A12; The Toronto Star, "Airport strip rides out the hotel slump," and "Hoteliers clamor for convention hall," Monday, March 22, 1976, p. C3; The Toronto Star, "Empty hotels: A look at the biggest losers," Tuesday, March 23, 1976.

<sup>76</sup> In fact, The Government of Manitoba has proposed the establishment of a 5% tax levy on hotel room use. See Schreyer, Edward R., 1976 Manitoba Budget Address, April 13, 1976.

On the efficiency side, it may be postulated that a hotel room tax would cause an undersupply of new hotel accommodations, since developers would see that such a tax would decrease the demand for hotel accommodations, and therefore, decrease the potential receipts from additional new hotel enterprises. Developers could conceivably shift investment away from hotels to some other form of real estate. Also on the efficiency side, it may be conjectured that areas in which a hotel room tax is imposed would become less hotel-intensive while outlying, non-hotel-room-taxed areas would become more hotel-intensive (following from the earlier discussion of commuting tax-avoiders). These two objections to a hotel room tax are perhaps the most serious ones that can be made on efficiency grounds. It is apparent, though, that for these arguments to be effective, the hotel room tax would have to be imposed at a fairly high rate (certainly above 5%).

Table 11-17 sets out some rough estimates of the expected yield from a five per cent tax on hotel room accommodations for Metropolitan Toronto. Column 2 of Table 11-17 lists the number of hotel rooms available from 1968 to 1976 and projects the number of rooms which will be available from 1977 to 1980.<sup>77</sup> Column 3 lists the occupancy rates obtained from Lowenthal and Horwath from 1968 to April 30, 1976. The rate of .66 for 1976 was based on the trend set between April 30 and December 31, 1976. An occupancy rate of .70 was used for the years 1977 to 1980, since this was considered to be the break-even occupancy rate for hotels.

Column 8 of Table 11-17 indicates the potential yield from a five per cent municipal tax imposed on hotel rooms. In 1974 it was estimated that such a tax would have yielded slightly more than \$6 million, whereas by 1980 it might result in almost \$8.5 million. Once again, the revenue yield would be rather small, perhaps too small in view of the complaints and administrative hassles which might result from the implementation of such a tax. From 1968 to 1974, the existence of a hotel room tax in Metropolitan Toronto would have yielded approximately one-half of one per cent of the total municipal taxes collected in the Metro system.

#### vi) Amusement Tax

A tax on amusements and entertainments is used by most provinces and many municipalities in Canada.<sup>78</sup> The Ontario amusement tax is imposed under The Retail Sales

---

<sup>77</sup>Based on estimates in the Toronto Star, "Metro Building Boom is a Bust in Housing", Saturday, January 31, 1976, p. F4. It was assumed that the number of hotel rooms would not grow appreciably between 1976 and 1980, due to the apparent oversupply existing in 1976.

<sup>78</sup>Provincial and Municipal Finances, 1975, Toronto: Canadian Tax Foundation, p. 105.



Table 11-17  
Estimated Revenue from a 5% Municipal Levy on Hotel Room Prices in Metropolitan Toronto

Year (1)	No. of Rooms Available Per Day (2)	Occupancy Rates (3)	Estimated Occupied Rooms (4)	Average Room Price \$ (5)	Estimated Daily Receipts \$ (6)	Estimated Annual Receipts \$ (7)	Estimated Annual Revenue from 5% Levy \$ (8)
1968	8,000	.69	5,520	16.18	89,313.60	32,599,464	1,629,973
1969	9,500	.73	6,935	17.30	119,975.50	43,791,058	2,189,553
1970	11,000	.72	7,920	18.44	146,044.80	53,306,352	2,665,318
1971	12,500	.68	8,500	19.76	167,960.00	61,305,400	3,065,270
1972	14,000	.68	9,520	20.85	198,492.00	72,449,580	3,622,479
1973	15,500	.68	10,540	22.92	241,576.80	88,175,532	4,408,777
1974	17,000	.74	12,580	26.26	330,350.80	120,578,042	6,028,902
1975	18,500	.66	12,210	29.64	361,904.40	132,095,106	6,604,755
1976 to April 30	20,000	.66	13,200	28.92	381,744.00	139,336,560	6,966,828
1977	20,000	.70	14,000	30.00	420,000.00	153,300,000	7,665,000
1978	20,000	.70	14,000	31.00	434,000.00	158,410,000	7,920,500
1979	20,000	.70	14,000	32.00	448,000.00	163,520,000	8,176,000
1980	20,000	.70	14,000	33.00	462,000.00	168,630,000	8,431,500

Source: Data in columns 3 and 5 were obtained from Lowenthal and Horwath (based on a sample of 25 representative hotels). The remainder of the data were obtained from The Toronto Star, "Metro building boom is a bust in housing," Saturday, January 31, 1976, p. F4; The Toronto Star, "Why hotels are crying the blues," Saturday, March 20, 1976, p. 1 and A12; The Toronto Star, "Airport strip rides out the hotel slump," and "Hoteliers clamor for convention hall," Monday, March 22, 1976, p. C3; The Toronto Star, "Empty hotels: A look at the biggest losers," Tuesday, March 23, 1976.

Tax Act as a separate rate. . Some exemptions are allowed, such as "....performances for charitable, religious and educational purposes, for amateur athletic contests and theatrical productions, and for agricultural and fisheries fairs."<sup>79</sup> A large number of municipalities in Canada tax amusements indirectly through the sale of permits for the licensing of certain activities (e.g. circuses, juke boxes, and bowling alleys).

While the province of Ontario has made no provision for municipal amusement tax levies, other provinces have. For example, "the municipalities of Newfoundland have authority to impose a local amusement tax under The Local Government Act and The City of St. John's Act. At the local level each council may determine the amount of the rate for different types of entertainment and resident and non-resident performers."<sup>80</sup> Under Quebec's Amusement Tax Act, a 10 per cent charge is levied on admission charges to amusements. This tax "....is collected from the operators of amusement places by municipalities under the supervision of the Department of Revenue."<sup>81</sup> Saskatchewan allows its cities, towns and villages to "....levy an amusement tax which may vary at council's discretion with the amount of the admission paid."<sup>82</sup>

Although revenue figures are not available for municipalities employing an amusement tax, it is apparent that a municipally imposed amusement tax is quite feasible. However, the Ontario Committee on Taxation has noted that "A specific tax on amusements and entertainment is impossible to support on grounds of equity. . . . And because the incidence of the tax is somewhat uncertain, particularly in relation to that part of the tax collected for admissions to amusements, the (amusement tax) cannot be justified on the grounds of ability to pay."<sup>83</sup>

An amusement tax, if imposed at the municipal level in Metro Toronto, could not be depended upon to yield a very large amount of revenue. Indeed, total amusement tax revenue for 1966 for all of Ontario under The Hospitals Tax Act amounted to just under \$7 million, using the same

---

<sup>79</sup> Ibid., pp. 105-106.

<sup>80</sup> Ibid., p. 106.

<sup>81</sup> Ibid., p. 106.

<sup>82</sup> Ibid., p. 106.

<sup>83</sup> Report of the Ontario Committee on Taxation, Vol. III, Toronto: Queen's Printer, 1967, pp. 286-287.

rate system which prevails today (i.e. 6 to 8 cents on admission charges in excess of 75 cents but not exceeding 92 cents, with a 10 per cent charge on admission charges exceeding 92 cents).<sup>84</sup> It is apparent also that some places of entertainment will avoid the tax, either through ignorance or delinquency, and the administrative costs required to improve collections could be prohibitive. If a municipal amusements tax were to be considered for the Metro area, it would have to be ascertained whether the benefits from net revenues from such a tax would outweigh the burden placed on consumers and collectors of the tax. Certainly, such revenues would not relieve any significant pressure from the property tax burden on Metro residents.

vii) Land Speculation and Land Transfer Taxes

The main purpose of the land speculation tax is to discourage the purchasing or holding of land for speculative purposes. A land transfer tax also serves to discourage speculation in the real estate market, although a land transfer tax is also aimed at generating revenues. The city of Halifax has a Deed Transfer Tax similar to the Ontario Land Transfer Tax.<sup>85</sup> The importance of the land transfer tax relative to the land speculation tax in Ontario can be seen by the revenues provided by each in the years 1973-74 and 1974-75. In 1973-74, the land transfer tax in Ontario yielded \$45.8 million while there were no revenues from the land speculation tax. In 1974-75, the land transfer tax yielded \$48.3 million while the land speculation tax yielded only \$283,000 for Ontario.<sup>86</sup> It is obvious, then, that if such taxes as these are imposed in the Metropolitan Toronto area (perhaps in the form of municipal surcharge on real estate transactions) the revenues to be expected from these taxes would be a small fraction of the above figures for Ontario. Unfortunately, the precise figures needed to make accurate estimates are unavailable. In spite of the fact that revenue generation is likely to be minimal, it might be instructive to look at the more academic side of these taxes.

The land transfer tax in Ontario was established in 1921 by The Land Transfer Tax Act. Under the Act, "Tax is paid by every person who tenders for registration a

---

<sup>84</sup> Provincial and Municipal Finances, 1975, op.cit., p. 106.

<sup>85</sup> Op.cit., p. 105.

<sup>86</sup> Public Accounts of Ontario, 1973-74 and 1974-75, Vol.1, Financial Statements, Toronto: Queen's Printer.

conveyance, deed, transfer or other instrument in writing whereby land is to be granted, assigned, conveyed or otherwise transferred."<sup>87</sup> All land transfers to Ontario residents "....are subject to a levy on the purchase price of 3/10 of 1 per cent up to \$35,000, 6/10 of 1 per cent on the remainder. On purchases of land by non-residents the land transfer tax is 20 per cent."<sup>88</sup> Of course, one important aspect of the land transfer tax is that revenues vary directly with changes in property values and the number of land transfers.

The Ontario Committee on Taxation suggested in 1967 that land transfer taxes "....be abolished and that commissions charged for services by real estate agents be made subject to the retail sales tax."<sup>89</sup> The reasons given were numerous. First of all, the Committee found the Ontario land transfer tax to be subject to "uncertainty and arbitrariness," following mainly from the actual wording of the act (e.g. "....leases for a period less than a life-time (approximately 50-60 years) are not taxable, while those for a longer period are treated as taxable sales"), as well as the fact that tax treatment "varies from office to office."<sup>90</sup>

The Committee noted that a land transfer tax is essentially regressive since, the "...values of homes in relation to incomes tend to decrease as income rises" although the higher rate for property in excess of \$25,000 in value may have "mitigated the regressiveness of the tax."<sup>91</sup>

The Ontario Committee on Taxation found as well that "On equity grounds it is impossible to justify the land transfer tax," since most individuals purchase real estate (e.g. their first home) at a time when they have the least ability to pay.<sup>92</sup> Actual real estate purchases cannot be construed as reliable indicators of ability to pay."

---

<sup>87</sup> Report of the Ontario Committee on Taxation, Toronto: Queen's Printer, 1967, p. 295.

<sup>88</sup> Provincial and Municipal Finances, 1975, *op.cit.*, pp. 104-105.

<sup>89</sup> Report of the Ontario Committee on Taxation, *op.cit.*, p. 297.

<sup>90</sup> Ibid., p. 296.

<sup>91</sup> Ibid., p. 296.

<sup>92</sup> Ibid., p. 296 (parentheses ours).



The Committee further notes that the land transfer tax "...is not an abundant producer of revenue..."<sup>93</sup> Furthermore, with regard to the Ontario land transfer tax, "Simplicity, clarity and certainty are not leading features of the tax because of the sometimes vague wording, and occasionally differing interpretations, of the rulings issued by the department."<sup>94</sup>

A serious drawback to all land transfer taxes in general is that they may help "...to destroy the market in central-city low-income housing structures and therefore (discourage) the socially beneficial transfer of these properties to a new class of owners."<sup>95</sup> A land transfer tax may thus accentuate urban deterioration, particularly in a region where such transfer taxes exceed the standard provincial levies. Hence, a municipally imposed surcharge on land transfers may cause significant adverse effects in the central city, unless the municipal transfer tax were to be provided on a pro rata basis to the municipality out of provincial land transfer tax revenues. This latter approach, however, would amount to a transfer from the provincial government to the municipality, and may therefore entail a lack of municipal control over both the tax levy and the disposition of the resulting revenues. Nonetheless, such a method would virtually eliminate administrative costs at the municipal level. If the land transfer tax were imposed at the municipal level and collected at the municipal level, administration costs would be substantial, particularly in relation to the revenues obtained. These revenues would necessarily be unimpressive because of the necessity to keep the municipal rate low (around one half of one per cent of the value of the property transferred, as in the Halifax deed transfer tax scheme) for the sake of neutrality. The administrative costs must be necessarily high because of the need to interpret the many ambiguities which would arise in the application of the tax.

A land speculation tax, while perhaps consistent with the equity principle (since speculative real estate transactions made by an individual are generally valid indicators of ability to pay), has many of the disadvantages of a land transfer tax, as well as the distinct disadvantage of low revenue generating potential.

The Land Speculation Tax is new to Ontario, being enacted on April 10, 1974. Specifically, the tax is imposed "...on the increase in value realized on the sale of designated real property in Ontario other than resource

---

<sup>93</sup> Report of the Ontario Committee on Taxation, op.cit.,  
p. 296.

<sup>94</sup> Ibid., p. 296.

<sup>95</sup> George E. Peterson ed., Property Tax Reform, Washington:  
The Urban Institute, 1973, p. 123.

property, i.e., on the difference between the proceeds of disposition and its fair market value on April 9, 1974 or its actual cost if acquired after that date, less eligible deductions for capital improvement costs and carrying charges."<sup>96</sup> The tax was originally imposed at the rate of 50 per cent but this rate was reduced to 20 per cent retroactive to April 10, 1974. The revenue generated by this tax is to be shared with Ontario municipalities (which receive 50 per cent of the total revenues).<sup>97</sup> With the low revenue yield and with the province of Ontario sharing revenues from the Land Speculation Tax with the municipalities of Ontario, it is very doubtful that it would be worthwhile to consider levying such a tax at the municipal level in Metro Toronto unless the motive were only to curb local speculation and increases in house prices. Administrative costs would probably approach those of a local land transfer tax even though revenues from a local land speculation tax might not be more than approximately .6 per cent of revenues from a local land transfer tax (based on the ratio of 1974-75 Ontario Land Speculation Tax revenues to 1974-75 Ontario Land Transfer Tax revenues).<sup>98</sup>

With most land transfer and land speculation taxes, there is a great tendency to impose higher rates of tax on foreign investors e.g. to Ontario Land Transfer Tax. The implications of these higher rates are great, particularly in the Canadian context. For instance, if such a differential does exist, it may be necessary to have an exemption structure for non-resident citizens.<sup>99</sup> The administrative complexities of such exemptions would be great since they would "....depend upon actually accomplishing the intentions."<sup>100</sup> A system of deferred exemptions, such as those contained in Quebec's land transfer tax to foreigners, has the effect of influencing selling prices, such that ".... a buyer facing a deferred exemption would also lower his offer for a property in the event that circumstances beyond his control eventually made him liable for the tax. If it turned out he did not have to pay the tax, then he would have purchased the property at less than market value at the expense of the seller."<sup>101</sup> It is interesting, and perhaps instructive, to note that the Quebec scheme is only expected to produce \$2 million in revenues.<sup>102</sup>

---

<sup>96</sup> Provincial and Municipal Finances, 1975, op.cit., p. 105.

<sup>97</sup> Ibid., p. 105.

<sup>98</sup> Public Accounts of Ontario, 1974-75, op.cit., p. 126.

<sup>99</sup> Amy Booth, "Industry dumbfounded by Quebec's land levy," in The Financial Post, May 29, 1976, p. 1.

<sup>100</sup> Ibid., p. 1.

<sup>101</sup> Ibid., p. 1.

<sup>102</sup> Ibid., p. 4.

Hence, it is apparent that the land transfer and land speculation taxes each have a number of serious flaws; the former with its adverse equity aspects, and the latter with its adverse neutrality and efficiency aspects. Both a land speculation and a land transfer tax, if imposed at the local level (i.e. in Metropolitan Toronto), could be expected to have adverse effects on the real estate market in Toronto by turning away new residents and industry and by indirectly contributing to deterioration in the poorer areas of the city. Finally, neither tax yields much revenue.

#### viii) Municipal Lotteries

The only persuasive reason for the existence of government operated lotteries is that lotteries provide a quick source of revenue. The advantages of a lottery as a revenue source are not only the fact that the revenue is quickly obtained, but that the revenue is obtained from the public with their full consent, since participation in lotteries is voluntary. Another major advantage of a lottery is that it is a politically neutral revenue generator (this follows from the fact that entry is voluntary). The disadvantages of a government lottery might be summarized as follows: 1) revenue yield is not necessarily stable, 2) it is not always obvious how the money generated by the lottery should be used, 3) tax concessions (e.g. tax free prizes) may be necessary in order to attract participants; and, 4) consumer expenditures may be diverted from other types of consumption by the lottery, thus decreasing tax revenues from these other sources.<sup>103</sup> Perhaps the main objection to government-operated lotteries is the objection to the state's taking advantage of the gambling instincts of the citizens; the question is asked "Is it morally right to entice people to gamble?" The question is even more relevant when it is known that the odds are decidedly against the participant. The odds must be in the government's favour if it is to make any money.

The Canadian experience with lotteries, judging by the success of such lotteries as the Olympic Lottery and the Wintario Lottery, has been quite remarkable. Commonly described as a "bonanza," the Olympic Lottery yielded about \$225 million in revenues, an amount significantly in excess of the initially expected \$32 million.<sup>104</sup> The Wintario programme is also expected to generate about \$60 million annually.

---

<sup>103</sup> Report of the Ontario Committee on Taxation, Toronto: Queen's Printer, 1967, p. 462.

<sup>104</sup> Amy Booth and Michael Van Dusen, "Loto Candy: Do the sweet fruits of avarice have a constitutional crunch?", in The Financial Post, May 22, 1976, p. 1.



It is obvious that if a municipal lottery were to be considered for the Metropolitan Toronto area, the effects of the Olympic and Wintario draws and more recently, the Loto Canada project, would have to be considered. In addition, several provinces are planning an inter-provincial lottery "which would divvy up the money on the basis of net revenue raised in each province."<sup>105</sup> Both Loto Canada and this interprovincial lottery plan to have \$10 tickets and \$1 million prizes.<sup>106</sup> Hence, a Metro lottery would, in all likelihood, find it necessary to offer tickets priced in the one-dollar range, which would therefore compete with the Wintario tickets. Such tickets are generally more appealing because of their low price, and large revenues might be expected from sales of such tickets to impulsive shoppers. Further, people in the Metro area might prefer Metro lottery tickets over Wintario tickets, in view of the fact that the revenues from the former might possibly result in more immediate benefits to Metro residents. But sales in other municipalities may be low for the same reason (i.e. residents of other municipalities may see no point in providing revenues for Toronto). It is altogether a matter of conjecture to attempt to ascertain what revenues a lottery for the Metropolitan Toronto area might generate. It might be quite optimistic to expect that the people of Ontario would split their expenditures evenly between Wintario and Metro lottery tickets (assuming both to be in the same price range). It would seem to be more reasonable to expect Metro lottery tickets sales to amount to considerably less than half the present Wintario sales (assuming similar prize schemes and distribution areas).

It must be expected also that the costs of administering a municipal lottery would be high. As the Ontario Committee on Taxation noted, "Growing revenue demands and interprovincial competition might force more active promotion of lotteries, a process almost certain to be expensive. The cost of ensuring honesty in a lottery is in any event appreciable, and doubtless tends to rise more than proportionately as the frequency of draws and the number of ticket outlets multiply."<sup>107</sup>

Hence, although a lottery for Metropolitan Toronto, like all lotteries, may violate the equity and neutrality principles, it might prove to be a reasonably lucrative source of revenue for Toronto, if it were to be based on province-wide distribution of sales. Based on very crude estimates, such a lottery, if similar to the Wintario scheme, might generate revenues for Metro Toronto in the

---

<sup>105</sup> Ibid., p. 1.

<sup>106</sup> Ibid., p. 1.

<sup>107</sup> Report of the Ontario Committee on Taxation, p. 464.



neighbourhood of \$20 million per year, which would amount to roughly 4.0 per cent of property tax revenues for Metro Toronto. One can only guess at this figure, since it is completely unknown how the market for lottery tickets in Ontario is apt to be divided if Metro Toronto were to enter the lottery field.

## CHAPTER 12

### SUMMARY OF REVENUE ANALYSIS

As distinct from Part II of this study where expenditures were projected up to 1980, no similar projection of revenues was made. Such a projection would have been meaningless for two reasons. First, a large portion of municipal expenditures are effectively committed for a number of years. The municipalities calculate the amount of revenue they can obtain from grants, licenses, permits, etc. and in general the residual is covered by the property tax. While grants have covered an increasing percentage of municipal expenditures and property tax revenue a decreasing percentage from 1968 to 1974 (Table 9-2), it is far from certain that this pattern will continue in the future. Second, and perhaps most important, a number of changes in the property tax are expected as a result of the Report of the Commission on the Reform of Property Taxation in Ontario. This precluded any realistic analysis of revenue yield from the property tax. Although it could be argued that total projected revenues must match total projected expenditures, it was not clear how the composition of this total would be determined between grants, taxes, etc. for the period 1975 to 1980. Hence, the exclusion of future projections.

While a detailed review of the material presented in Part III would be redundant, a quick presentation of the relative importance of the various revenue sources might be useful. Briefly, conditional and unconditional grants have been accounting for an increasing percentage of total municipal revenues while total municipal taxation has been accounting for a smaller percentage. A review of these grants reveals that unconditional grants have increased substantially while conditional grants have remained fairly stable. Thus, the rising importance of total grants in the municipal revenue picture is due mainly to increased unconditional grants.

Chapter 10 assessed the existing revenue sources and chapter 11 evaluated a number of alternative revenue sources along with their potential yield. It was concluded that a municipal income tax, in the form of a surtax on the existing income tax base, would provide the greatest amount of equity, create the fewest number of distortions and certainly be no more expensive to administer than the other alternatives considered. Table 12-1 illustrates the possible yield from five alternative revenue sources for which estimates of potential revenue were calculated. It is important to note that the municipal rate structure underlying the revenue estimates in Table 12-1 is fairly low. This is because it was assumed that higher rates would lead to attempts to avoid the tax. Table 12-1 indicates that the municipal income tax has the greatest potential

as an additional revenue source. In fact, a modest municipal income tax (1 per cent surtax on the existing income tax base) would have yielded an amount of revenue equal to between 17 and 20 per cent of the total municipal revenue collected in each of the three years studied. A municipal sales tax was next in revenue potential with the remaining three (motor vehicle license fees and road user charges, liquor tax and hotel room tax) falling some distance behind in terms of their potential yield.

All things considered, if the implementation of an alternative municipal revenue source for Metropolitan Toronto is to be considered, it appears that the municipal income tax is the most reasonable and logical choice.

Table 12-1  
Estimated Yield of Alternative Revenue Sources for the Municipality of Metropolitan Toronto  
(Alone) for Three Selected Years

	1968		1971		1974	
	Total Metro (alone) Revenue (000)	% of Total Metro(alone) Revenue 6	Total Metro (alone) Revenue (000)	% of Total Metro(alone) Revenue 6	Total Metro (alone) Revenue (000)	% of Total Metro(alone) Revenue 6
Income Tax <sup>1</sup>	\$ 71,000	17.3%	\$ 93,000	17.1%	\$138,000	20.1%
Sales Tax <sup>2</sup>	24,225	5.9	39,734	7.3	53,227	7.7
Motor Vehicle License Fees & Road User Charges <sup>3</sup>	10,199	2.5	11,600	2.1	13,318	1.9
Liquor Tax <sup>4</sup>	1,862	.5	2,106	.4	2,767	.4
Hotel Room Tax <sup>5</sup>	1,630	.4	3,065	.6	6,029	.9
TOTAL	\$108,916	26.6%	\$149,505	27.6%	\$213,341	31.1%

<sup>1</sup>Figures obtained from column 5 of Table 11-1 and column 3 of Table 11-5.

<sup>2</sup>Figures obtained from column 5 of Table 11-9.

<sup>3</sup>Figures obtained by summing columns 3, 5 and 7 of Table 11-13 and columns 2,3 and 4 of Table 11-14.

<sup>4</sup>Figures obtained from column 9, Table 11-15. The figure for 1968 was not available. Therefore, the figure for 1969 was substituted in 1968.

<sup>5</sup>Figures obtained from column 8 of Table 11-17.

<sup>6</sup>Total revenue figures for the Metro System were obtained from Appendix K.





PART IV

FISCAL      I M B A L A N C E

## CHAPTER 13

### INTRODUCTION

Fiscal imbalance at the local level can be defined in two ways. The first involves a comparison of total local government expenditures and total local government revenues from all sources except borrowing. The second type of fiscal imbalance differs from the first in that it excludes transfers from the senior levels of government as well as local government borrowing. In both cases, total municipal government expenditures include all current expenditures.<sup>1</sup>

While each of these definitions serves a specific purpose, this study uses the latter; that is to say, we are interested in viewing the difference between local expenditures and local own source revenues. This measurement indicates the degree to which local governments can finance their own expenditures without relying on grants from other governments. The first of the two measures outlined above stresses the size of government deficits and the associated problems of debt management and the costs of servicing the debt. However, since deficit budgeting for municipalities is forbidden by law in Ontario, this precise measure of fiscal imbalance is somewhat meaningless at the local level. In this section of the study, chapter 14 reviews the actual imbalance, or lack of it, in the entire Metro system, Metro alone and the sum of the area municipalities. Chapter 15 summarizes the imbalance and provides some general comments on the possible methods of eliminating such an imbalance.

---

<sup>1</sup>For a discussion of fiscal imbalance, see W. Irwin Gillespie, "The Municipal Fiscal Dilemma: An Examination and Analysis of Municipal Financial Problems," in 1973 Conference Report, Toronto: Canadian Tax Foundation, November 1973, pp. 561-590.

CHAPTER 14

FISCAL IMBALANCE IN METROPOLITAN TORONTO

The Chief Administrative Officer's Department of Metropolitan Toronto has observed that Metro's gross expenditures have been increasing "...abnormally fast while revenues are increasing very little."<sup>1</sup> The Department has reported that "...inflationary influences have caused very significant cost increases for labour (30 per cent - 1970 to 1974), material (asphalt 105 per cent - 1973 to 1974, fuel oil 100 per cent - 1973 to 1974), and other inputs (desks 69 per cent - 1973 to 1974, data processing cards 110 per cent - 1973 to 1974). At the same time recession related influences such as unemployment act to increase costs in certain areas of municipal government. Expenditures on functions such as social services are increasing (17 per cent in 1974, 31 per cent in 1975)."<sup>2</sup> However, revenues from the property tax remain "...virtually constant because the existing assessment and taxation system is not capable of capturing any return from increased property values ... assessment in Metro Toronto grew by only 4.2 per cent, 3.8 per cent, 3.5 per cent in the years 1974 to 1976, respectively, while property values showed tremendous increases over the same time period."<sup>3</sup>

The Department has noted further that upper-tier municipalities (such as the Municipality of Metropolitan Toronto) have undergone more harm to their fiscal position than other municipalities. This is the result of "...the adverse effect on revenues of the unpredictable and decelerating provincial transfers used primarily for large expenditure 'people' services that have been assigned to the upper tier. At the Metro level these transfers are particularly important in the three expenditure areas of police, T.T.C. and social services which in total account for some 70 per cent of the Metro Budget."<sup>4</sup>

In order to assess the significance of the comments made in the preceeding paragraphs, some evidence of the fiscal imbalance which existed in Metro alone, the total of the area municipalities and the Metro system from 1968 to 1974 is required.

<sup>1</sup>Chief Administrative Officer's Department, Toronto, Influences on Metro's Budgeting Process, Toronto, June 4, 1976, p. 4. This refers to Metro alone.

<sup>2</sup>Ibid., p. 4.

<sup>3</sup>Ibid., p. 4.

<sup>4</sup>Ibid., p. 5.



Table 14-1 provides information on the fiscal imbalance<sup>5</sup> in Metro alone (with and without the provincial grant for education), the Metro system (with and without the provincial grant for education), and the aggregate of all the area municipalities. Excluding the provincial grant for education, the fiscal imbalance for Metro alone increased from a level of \$43,506,000 in 1968 to a level of \$130,993,000 in 1974 or by 201 per cent. Since part of this increase may be attributed to the fact that the number of households increased over this time period, a better comparison could be made by referring to increases in the per household figures. Per household fiscal imbalance in Metro alone rose from \$73.99 in 1968 to \$177.00 in 1974, an increase of 139 per cent. Similar rates of increase took place for the Metro system as a whole. For example, the total fiscal imbalance increased from \$38,246,000 to \$139,933,000, an increase of 266 per cent, while the per household fiscal imbalance grew from \$65.04 to \$189.16, an increase of 191 per cent.<sup>6</sup> The fiscal imbalance of the area municipalities as a group provides some rather interesting information. For example, in 1968, 1969 and 1970, their own source revenue exceeded expenditures, i.e., own source revenues of these municipalities were more than enough to finance their total expenditures. While this situation has reversed itself and imbalances have grown since 1971, these are small compared to Metro's imbalance.

From this, one can conclude that the fiscal imbalance in the entire Metro system is primarily created by the imbalance existing in Metro alone. In 1974, the per household fiscal imbalance of \$189.16 was composed of \$177.00 at the Metro (alone) level and \$12.16 at the area municipality level. On the other hand, 1968 is notable in that the \$65.04 imbalance consisted of \$73.99 by Metro (alone) and a positive balance (i.e. own source revenues exceeded expenditures) of \$8.95 at the area municipal level.

---

<sup>5</sup>The fiscal imbalance is defined as expenditures less own source revenue. Own source revenue includes revenue from taxes, grants-in-lieu of taxes, and other revenue. It excludes conditional and unconditional grants from a senior level of government (i.e. federal or provincial). While grants-in-lieu of taxes are also paid by a senior level of government, they are included in own source revenue since they are similar to taxation revenue in that they are intended to compensate, in full or in part, for taxes that would be payable if federal or provincial property were in private hands.

<sup>6</sup>Table 14-1 also illustrates the fiscal imbalance when the provincial grant for education is included. For example, the total fiscal imbalance in Metro alone rose by 146 per cent from 1968 to 1974. The corresponding per household increase was 95 per cent. In the entire Metro system, the increase in the total fiscal imbalance was 164 per cent while the per household increase was 110 per cent.

Table 14-1  
Fiscal Imbalance<sup>1</sup> 1968 to 1974

	1968		1969		1970		1971		1972		1973		1974	
	Total (000)	Per House- hold	Total (000)	Per House- hold	Total (000)	Per House- hold	Total (000)	Per House- hold	Total (000)	Per House- hold	Total (000)	Per House- hold	Total (000)	Per House- hold
Metro Alone <sup>2</sup>	\$43,506	\$ 73.99	\$ 50,698	\$ 84.82	\$ 57,602	\$ 88.75	\$ 77,311	\$116.51	\$ 80,633	\$116.35	\$100,340	\$145.52	\$130,993	\$177.00
Area Municipalities <sup>4</sup>	(5,260)	( 8.95)	(2,677)	(4.48)	(3,239)	(4.99)	3,098	4.67	6,170	8.90	17,047	24.72	9,000	12.16
Metro System <sup>2</sup>	38,246	65.04	48,021	80.34	54,363	83.76	80,409	121.18	86,803	125.25	117,387	170.24	139,933	189.16
Metro Alone <sup>3</sup>	120,720	205.30	137,238	229.60	160,818	247.79	217,750	328.16	233,985	337.63	258,727	375.21	296,681	400.87
Metro System <sup>3</sup>	115,755	196.86	134,565	225.13	157,574	242.79	220,848	332.82	240,153	346.53	275,769	399.93	305,620	412.95

<sup>1</sup> Total expenditures less total own source revenue.

<sup>2</sup> Excludes the provincial grant for education.

<sup>3</sup> Includes the provincial grant for education.

<sup>4</sup> The aggregation of all area municipalities.

Source: Expenditure figures obtained from data used in Appendix B. Revenue figures obtained from data used in Appendix K. Figures in brackets indicate that own source revenue exceeds expenditures.

Alternatively, one might view the figures in Table 14-1 in the following manner; the per household figures reflect the amount of extra money which each household would have had to pay if Metro and the area municipalities were to be self-sufficient in terms of own source revenue (i.e., if they were to have been able to get along without contributions from other governments). For the Metro system, that would have amounted to \$65.04 in 1968 and \$189.16 in 1974.

Finally, it would be useful to analyze the imbalance as a percentage of total municipal expenditures. Table 14-2 does this over the time period under consideration. Clearly the relative importance of the fiscal imbalance has risen. In fact, it has increased for Metro alone from 24.7 per cent of expenditures in 1968 to 34.6 per cent in 1974. Similarly, the Metro system's imbalance has risen from 17.4 to 26.6 per cent over this same period. As far as the area municipalities are concerned, the figures have changed from a positive balance of 3.1 per cent in 1968 to an imbalance of 3.1 per cent in 1974.

The short-fall of own source revenue ( which is the fiscal imbalance where it exists) must be covered by conditional and/or unconditional grants from the senior levels of government. Table 14-3 provides a comparison between per household grants and the per household fiscal imbalance which existed for three years, namely 1968, 1971 and 1974. In Metro alone, per household grants were not sufficient to cover the fiscal imbalance in 1968 and 1974, whereas in the entire Metro system per household grants exceeded the corresponding fiscal imbalance in each of the years studied. In fact, the net revenue of the entire Metro system in 1974 was almost \$21 million, i.e. the entire Metro system generated almost \$21 million more in revenue than was required to finance current expenditures. On a per household basis the net revenue in the entire Metro system was \$28.15 per household. Of the total net revenue of \$21 million, it is useful to note that Metro alone incurred a shortfall of \$4 million while the area municipalities (in aggregate) had excess of \$25 million.

Table 14-2

Fiscal Imbalance as a Per Cent of Expenditures, 1968-1974<sup>1</sup>

	1968 %	1969 %	1970 %	1971 %	1972 %	1973 %	1974 %
Metro alone <sup>2</sup>	24.7	25.3	25.6	31.9	31.6	33.8	34.6
Area Municipalities <sup>3</sup>	(3.1)	(1.4)	(1.5)	1.3	2.5	6.4	3.1
Metro System <sup>2</sup>	17.4	18.4	18.8	24.0	24.2	26.7	26.6

<sup>1</sup> Percentages are calculated by subtracting own source revenues from expenditures and dividing by total expenditures and multiplying by 100.

<sup>2</sup> Includes the provincial grant for education.

<sup>3</sup> The sum of all the area municipalities.

Source: Data obtained from Table 14-1 and Appendix B. Figures in brackets indicate that own source revenues exceeded expenditures.



Table 14-3

A Comparison of the Per Household Fiscal Imbalance  
And Per Household Total Grants for 1968, 1971, 1974

	1968		1971		1974	
	Fiscal Imbalance <sup>1</sup>	Total Grants <sup>2</sup>	Fiscal Imbalance <sup>1</sup>	Total Grants <sup>2</sup>	Fiscal Imbalance <sup>1</sup>	Total Grants <sup>2</sup>
Metro Alone <sup>3</sup>	\$205.30	\$201.09	\$328.16	\$328.37	\$400.87	\$395.57
Area Municipalities	( 8.95)	19.62	4.67	28.53	12.16	45.53
Metro System <sup>3</sup>	196.86	220.71	332.82	356.90	412.95	441.10

<sup>1</sup>Data obtained from Table 14-1.

<sup>2</sup>Data obtained from Appendix K.

<sup>3</sup>Includes the provincial grant for education.

Source: Table 14-1 and Appendix K. Figures in brackets indicate that own source revenues exceed expenditures.

## CHAPTER 15

### SUMMARY OF FISCAL IMBALANCE

While Table 14-3 illustrated that the Metro system obtained more revenue than was required to meet its expenditures for the three years listed, the same table pointed out that Metro alone, in two of the three years, actually received less revenue than required in order to finance necessary expenditures. What is the cause of this imbalance?

Professor I. Gillespie<sup>7</sup> has suggested that as long as taxpayers are mobile, any attempt by municipalities to improve their imbalance position will be futile, since those affected will flee from areas with a fiscal-imbalance-induced undersupply of public goods at the local level and move to areas with a better supply of public goods, relative to tax payments in both areas. The solution to such a fiscal imbalance might consist of "....(i) some form of revenue-sharing among the levels of government, or (ii) an institutional mechanism of unconditional grants from the level of government best able to administer the appropriate tax instruments to the level of governments experiencing difficulty in financing its expenditures and constrained by interlocal tax competition in the independent options open to it."<sup>8</sup>

James A. Johnson sees the fiscal imbalance at the municipal level as a result of "....constitutional, political and administrative constraints on the revenue side of the budget."<sup>9</sup> Johnson notes that the British North America Act prevents provincial and local governments from using indirect taxation, and also allows provincial governments to control local governments. The provincial governments, in turn, do not allow local governments to levy

---

<sup>7</sup>W.I. Gillespie, "The Municipal Fiscal Dilemma: An Examination and Analysis of Municipal Financial Problems", 1973 Conference Report, Canadian Tax Foundation, November 1973, Toronto, Ontario, p. 574. These attempts to improve their position include increased short-term borrowing to finance expenditures, increased tax rates on existing tax sources, and a quest for new tax sources such as a municipal sales tax, income tax, etc.

<sup>8</sup>Ibid., p. 574.

<sup>9</sup>James A. Johnson, "The Municipal Quest for Additional Revenues: Implications for Urban Growth and Urban Development in Canada", in Local Government Studies, January 1975, p. 65.

direct taxes which will yield large revenues (such as retail sales taxes and income taxes). Hence, the local governments are left with the two main local sources of income: property taxes and user charges, each of which has been a non-growth revenue source. Fiscal imbalance results because these revenue sources "...tend to grow more slowly than family income" while "the demand for local services.... more than keeps pace with income."<sup>10</sup>

Johnson notes several possible methods of alleviating the fiscal imbalance problem at the local level in Canada. One of these is to shift some expenditure programs presently undertaken by local governments to higher levels of government.<sup>11</sup> The types of expenditures to be included under this scheme would be those which produce significant beneficial spillover effects and also are subject to economies of scale in production (e.g. highways and waste treatment). Johnson notes that "The case for a program to be undertaken by a local government is greatest where there are diseconomies of scale and few spillovers (e.g. recreational services for local residents)."<sup>12</sup>

While there are no simple solutions to the problem of fiscal imbalance, other solutions which might be considered include improvements in the property tax to increase its revenue yield, greater use of the property tax, greater use of user charges at the local level, the use of a local income tax, sales tax, motor vehicle license fees, hotel room tax, and liquor tax. Most of these were discussed in Part III.

---

<sup>10</sup>Ibid., p. 65.

<sup>11</sup>Ibid., p. 66.

<sup>12</sup>Ibid., p. 64.

PART V

C O N C L U S I O N





## CHAPTER 16

### CONCLUSION

The expenditure analysis (section II) indicated that expenditures in labour intensive services have been increasing at a much faster rate than expenditures on other services and will continue to do so in the future. As well, most of these services (e.g. transit and police) are the responsibility of the upper-tier level of government. While one might suggest that certain expenditure functions be eliminated, this is the responsibility of the elected representative. Instead, we have made some suggestions in our financial management section for evaluating and perhaps controlling expenditures in a more effective and efficient manner. Consequently, then, we have accepted the past expenditure levels and used them as a basis for projecting future expenditures.

The revenue analysis (section III) examines total revenue and its composition for each of the municipalities along with the overall total for each of the years 1968 to 1974. Grants as a per cent of total revenue have increased in each of the area municipalities with the exception of North York where there was a marginal decrease. In Metro alone, total grants (conditional and unconditional) were almost three times as important in 1974 as in 1968 in terms of their contribution to Metro's revenue. For the entire Metro system, grants were roughly twice as important in 1974 as in 1968. At the same time, total taxes as a per cent of total revenue declined for the City of Toronto and the five boroughs, except for East York, where the increase was extremely small. Metro alone showed a significant increase in the percentage of its total revenue which came from taxes. Specifically, tax revenue accounted for 60 per cent in 1968 and 78 per cent in 1974. For the Metro system, taxes fell in terms of their relative contribution from 83 per cent to 74 per cent. Grants-in-lieu of taxes and other revenue accounted for the remainder of the total revenue. Their contribution remained fairly constant over the period analyzed.

Section IV reviewed the overall financial picture and analyzed the fiscal imbalance which existed from 1968 to 1974. It is not feasible to estimate the fiscal imbalance which might be expected to exist in the future, since changes in the property tax are expected. On the other hand, according to local politicians and administrators, there is considerable concern about the ability of municipal government to meet future expenditures and this concern appears to be well-founded.

What then can be done? It seems that either one or a combination of the following approaches can be taken. First, the municipalities' own source of revenue, primarily property tax, could be increased and improved. Second, an alternative source (or sources) of revenue (excluding grants) could be assigned to municipalities. Third, some expenditure function(s) could be curtailed or transferred to a more senior level of government. Fourth, grants could be increased.

#### i) Property Tax

Much of the current criticism of the property tax revolves around the argument that it is an inelastic source of revenue for the local municipalities. That is, as expenditures rise, the yield from the property tax does not increase correspondingly with the result that the gulf between own source revenues and expenditures increases. The difference is covered by grants from the provincial government. The main weakness in this argument is that there is nothing inherent in the property tax which implies that it must be a slow growth tax. Instead, this problem has arisen because the assessed value of properties has not kept up with market value. Indeed, more frequent assessment based on market value would make the property tax a much more attractive source of growth revenue than at present. Table 16-1 gives the average price of houses in the Metro system for the years 1968 to 1976. Column 3 of this table provides an index showing the rapid and substantial increase in the average price of houses over this same period. Table 16-2 shows the average assessment per household in Metro. As one can readily observe, the average assessment has hardly changed from 1968 to 1974. Indeed, when comparing this table with Table 16-1, one notices that housing prices on average rose by a factor of 1.975 from 1968 to 1974 while all household assessment on average fell by a factor of .046 (from 1.00 in 1968 to .954 in 1974) over the same time period.

Table 16-3 provides two estimates of residential property assessment based on the assumption that residential property assessment would be directly related to housing prices. Table 16-4 illustrates the potential property tax yield which might have been obtained if property assessment had been adjusted as outlined in Table 16-3. Column 3 of this table provides an estimate based on the assumption that the mill rate remains fixed at the 1969 mill rate, with any increase in per household tax revenue coming from an increase in assessment alone. Column 4 provides an estimate of the yield per household of one mill of property tax. From this, the residential property tax revenue per household from a given mill rate can be determined by multiplying the mill rate by the numbers in column 4 to obtain the potential revenue yield.

Table 16-1

Average Housing Prices in Metro<sup>1</sup>

Year (1)	Average Price <sup>1</sup> (2)	Index of Hous- ing Prices <sup>2</sup> (3)
1968	\$26,732	100.0
1969	28,931	108.2
1970	29,492	110.3
1971	30,426	113.8
1972	32,513	121.6
1973	40,605	151.9
1974	52,806	197.5
1975	57,581	215.4
1976 (first 5 months)	60,955	228.0

<sup>1</sup>Source: Toronto Real Estate Board.

<sup>2</sup>The Index is calculated from the figures in column 2.



Table 16-2

Average Residential and Farm Assessment  
Per Household in Metro

Year	House- holds	Residential and Farm Assessment	Average Assessment Per Household <sup>1</sup>	Index of Average Household Assessment <sup>2</sup>
(1)	(2)	(3)	(4)	(5)
1968	588,020	\$2,968,832,670	\$5,048.9	100.0
1969	597,719	2,864,374,622	4,792.2	94.9
1970	649,019	3,005,890,032	4,631.4	91.7
1971	663,557	3,234,094,000	4,873.9	96.5
1972	693,028	3,385,840,000	4,885.6	96.8
1973	689,550	3,559,223,000	5,161.7	102.2
1974	740,091	3,563,448,000	4,814.9	95.4

<sup>1</sup>Column 3 divided by column 2.

<sup>2</sup>The index is calculated from the figures in column 4.

Source: Figures in columns 1 and 2 were obtained from Municipal Financial Information, 1973, 1974 and Summary of Financial Reports of Municipalities, 1968, 1969, 1970, 1971, 1972, Toronto, Queen's Printer.

Table 16-3

Estimated Residential Property Assessment in Metro

Year (1)	Estimate A of Residential Property Assessment Per Household <sup>1</sup> (2)	Estimate B of Residential Property Assessment Per Household <sup>2</sup> (3)
1968	\$ 5,048.9	
1969	5,462.9	\$ 5,048.9
1970	5,568.9	5,462.9
1971	5,745.6	5,568.9
1972	6,139.5	5,745.6
1973	7,669.2	6,139.5
1974	9,971.6	7,669.2

<sup>1</sup>Assessment figures in this column are taken from column 4, Table 16-2 and multiplied by the index of column 3, Table 16-1 to yield assessment per household on the assumption that average assessment per household increased at the same rate as housing prices.

<sup>2</sup>Assessment figures obtained on the assumption that increases in assessment per household lag behind housing price increases by one year, that is, the increase in assessment from 1973 to 1974 is in proportion to the increase in housing prices from 1972 to 1973.

It still remains for us to compare the property tax yield from a particular mill rate under both the present (column 4, table 16-2) and a growing assessment base (column 2, table 16-4). Table 16-5 does this. Column 8 provides an estimate of the increase in property tax revenue resulting from a rate of one mill for each of the years 1969 to 1974. To obtain the difference in total revenue from the two assessment (tax) bases, one could simply multiply the figures in column 8 by the mill rate.

One of our objectives in this section is to assess the way in which municipalities might have increased their own source revenue. Column 2 of table 16-6 indicates the increase in total revenue from a rate of 100<sup>1</sup> mills on a growing assessment base. Columns 5 and 6 provide estimates of the per cent of fiscal imbalance which could have been covered by our expanding assessment base. Column 5 illustrates the per cent of fiscal imbalance which could have been met if the provincial grant for education had been excluded from our expenditure figures. If the provincial grant for education is taken into account, then a much smaller percentage of the fiscal imbalance could be met. This is shown in column 6. In 1974, for instance, the total fiscal imbalance, excluding the provincial grant for education (column 5), could have been more than met if the value of the assessment base had reflected increases in housing prices. If the provincial grant for education had been included (column 6), almost 70 per cent of the revenue shortfall could have been covered. While in each of the other years the total fiscal imbalance could not have been covered to the same extent, a significant portion could have been offset by this increase in the value of the assessment base.

Although the above discussion provides a strong argument for greater use of the property tax and offers a rough estimate of the revenue shortfall which might have been covered, the analysis only deals with the residential portion of the property tax and not with the property tax as applied to commercial and industrial property. We were unable to obtain sufficiently accurate data to undertake a similar analysis for these properties, but it is our impression that if they were taken into account, the total increase in the property tax base would

---

<sup>1</sup>The rate of 100 mills was chosen to illustrate this example. The actual average mill rate per household in Metro in each of the years 1969 to 1974 was, by our calculation, 86.43, 93.72, 84.48, 103.0, 99.09, 106.81 respectively.

Table 16-4

Estimated Property Tax Revenue Per Household in Metro

Year	Estimated Residential Property Assessment Per Household <sup>1</sup>	Estimated Property Tax Revenue Per Household <sup>2</sup>	Property Tax Yield Per Household From a Mill Rate of One <sup>3</sup>
(1)	(2)	(3)	(4)
1969	\$ 5,048.9	\$436.38	\$5.05
1970	5,462.9	472.16	5.46
1971	5,568.9	481.32	5.57
1972	5,745.6	496.59	5.75
1973	6,139.5	530.64	6.14
1974	7,669.2	662.85	7.67

<sup>1</sup>Column 3 of Table 16-3. Column 3 was chosen instead of column 2 because it was felt that these figures were based on a more realistic assumption.

<sup>2</sup>This column is based on the assumption that the mill rate for each year was fixed at the mill rate existing in 1969. This was obtained by dividing the average property tax per household by the average assessment per household and multiplying by 1000.

<sup>3</sup>Based on the same assumption as in column 3. If one wanted to calculate the total revenue, one could simply take the mill rate and multiply the figures in this column by the mill rate to yield the total revenue per household.



Table 16-5

Comparison of Revenue Yield From a Tax Rate of One Mill

Year	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		Actual Assessment Per Household <sup>1</sup>	Property Tax Yield Per Household From a Mill Rate of One <sup>2</sup>	Estimated Assessment Per Household <sup>3</sup>	Estimated Property Tax Yield Per Household From a Mill Rate of One <sup>4</sup>	Additional Revenue Yield Per Household <sup>5</sup>	Total Number of Households <sup>6</sup>	Additional Total Revenue Yield <sup>7</sup>
1969		\$4,792.2	\$4.79	\$5,048.9	\$5.05	\$ .26	597,719	\$155,407
1970		4,631.4	4.63	5,462.9	5.46	.83	649,019	538,686
1971		4,873.9	4.87	5,568.9	5.57	.70	663,557	464,490
1972		4,885.6	4.89	5,745.6	5.75	.86	693,028	596,004
1973		5,161.7	5.16	6,139.5	6.14	.98	689,550	675,759
1974		4,814.9	4.81	7,669.2	7.67	2.86	740,091	2,116,660

<sup>1</sup>Figures obtained from column 4 of Table 16-2.

<sup>2</sup>Calculated from the figures in column 2.

<sup>3</sup>Figures obtained from column 2, Table 16-4.

<sup>4</sup>Identical to column 4 of Table 16-4.

<sup>5</sup>Column 3 subtracted from column 5.

<sup>6</sup>Identical to column 2 of Table 16-2.

<sup>7</sup>Figures obtained by multiplying column 7 by column 6.

Table 16-6

Additional Total Residential Property Tax Yield in the Metro System

Year	Additional Total Residential Property Tax Yield on the New Assessment Base from a Tax Rate of 100 Mills <sup>1</sup>	Total Fiscal Imbalance <sup>2</sup>	Total Fiscal Imbalance <sup>3</sup>	Additional Revenue As a Per Cent of Fiscal Imbalance <sup>4</sup>	Additional Revenue As a Per Cent of Fiscal Imbalance <sup>5</sup>
(1)	(2)	(3)	(4)	(5)	(6)
	(000)	(000)	(000)	%	%
1969	\$15,541	\$48,021	\$134,565	32.4	11.5
1970	53,869	54,363	157,574	99.1	34.2
1971	46,449	80,409	220,848	57.8	21.0
1972	59,600	86,803	240,153	68.7	24.8
1973	67,576	117,387	275,769	57.6	24.5
1974	211,666	139,933	305,620	151.3	69.3

<sup>1</sup>These figures were obtained by multiplying the figures in column 8 of Table 16-5 by 100.

<sup>2</sup>Figures obtained from Table 14-1 excluding the provincial grant for education.

<sup>3</sup>Figures obtained from Table 14-1 including the provincial grant for education (row 5 of Table 14-1).

<sup>4</sup>Column 2 as a per cent of column 3.

<sup>5</sup>Column 2 as a per cent of column 4.

be substantial. For example, total commercial and industrial property taxes as a percentage of total residential property taxes amounted to 70 per cent for 1968; 68 per cent for 1969; 70 per cent for 1970; 74 per cent for 1971; 63 per cent for 1972; 61 per cent for 1973; 64 per cent for 1974.

A further way of evaluating the scope for increasing property taxes is to compare their increase with the increase in disposable income over the same time period. Table 16-7 provides this comparison. Per household disposable income rose by almost 45 per cent<sup>2</sup> while per household residential property tax increased by only 11 per cent, a considerable difference in the rate of increase. Clearly, then, if one argues that residential property taxes should be related in some crude way to income, then one can easily argue that property taxes could have risen considerably more than they actually did.

Several other points should be made. First, one of the criticisms of the property tax has always been that it is highly regressive but given the existence of the property tax credit in Ontario, recent empirical work on the incidence of the property tax simply does not support the claim of regressivity.<sup>3</sup>

A further and somewhat related argument against the property tax revolves around the notion that if property taxes increase, low income earners will be unable to meet their property tax payments. While this is a serious problem, we do not believe that a tendency to hold down property taxes in order to re-distribute income is either effective or efficient. Low property taxes tend to benefit high income earners more than low income earners. Since it is frequently the high income earner who is able (through one device or another) to escape income tax and since a fair amount of this income is often converted into property, we feel that a more extensive use of the property tax would capture some of this untaxed income. In order to offset the higher property taxes on the low income earners, a form of credit geared to income, such as the Ontario property tax credit, or outright cash grants (from either the municipality or a more senior level of government), particularly for

---

<sup>2</sup>By way of comparison, per capita disposable income rose by almost 62 per cent from 1969 to 1974. Average individual income in Metropolitan Toronto as reported in Taxation Statistics (published by Revenue Canada and based on income tax returns) increased by more than 55 per cent over the same time period.

<sup>3</sup>See chapter 10.

Table 16-7

A Comparison of Per Household Disposable Income And  
Per Household Residential Property Taxes In The  
Metro System, 1969 to 1974

Year	Per Household Disposable Income <sup>1</sup>	Per Household Residential Property Taxes <sup>2</sup>
1969	\$ 9,228	\$475
1970	9,184	503
1971	10,683	485
1972	N.A.	514
1973	12,271	532
1974	13,317	527

N.A. - not available

<sup>1</sup>Calculated from data in The Municipality of Metropolitan Toronto: An Economic and Financial Survey, Corporation of Metropolitan Toronto, Toronto, September 1975, p. 9.

<sup>2</sup>Data obtained from the last row of Table 9-5.



those people whose incomes would not be large enough so as to benefit from a property tax credit, would assist those in need more efficiently and equitably.

## ii) Alternative Revenue Sources

One further way in which the Metro system's own source revenues might be increased is by opening up new revenue sources.

Since our ability to predict the future fiscal imbalance is limited, we are left with the task of analyzing the extent to which the imbalance in the past might have been covered if a number of alternative municipal taxes had been in existence from 1969 to 1974.

Chapter 11 discussed the implications of introducing a variety of different municipal taxes, but a few additional points should be mentioned. It is not our intention to advocate the introduction of one or more of these taxes. We realize that there are advantages and disadvantages to each. But it is necessary to outline some of the practical concerns which must be faced if they are to be seriously considered.

First, there is a problem of spillovers if one municipality imposes one of these taxes while adjacent municipalities do not. For example, if a municipal motor vehicle tax is imposed on residents of Toronto, will this cause residents to purchase their licenses in adjacent municipalities? Similarly, the imposition of a municipal sales tax may discourage consumers from purchasing in Metro while encouraging them to shop in adjacent municipalities where no such tax exists. A tax which is not uniformly applied across political boundaries may encourage taxpayers to undertake activities which will allow them to avoid it. The extent to which tax avoidance will exist will be a direct function of the differential in the tax burden from one municipality to another. Consequently, the imposition of any municipal tax, regardless of whether it is on income, sales or motor vehicles must be at a low rate to minimize the incentive for tax avoidance.

A second major concern is the cost of collecting and administering the tax. In order to minimize this cost, it is suggested that any municipal tax take the form of a surcharge imposed on existing provincial or municipal taxes. However, such a step would reduce sharply the flexibility and accountability of municipal councils in their use of these taxes.

To complete this assessment of alternative revenue sources, it would be useful to record the percentage of the Metro system's fiscal imbalance which might

have been eliminated for each of the years 1969 to 1974 by introducing various municipal taxes. Table 16-8 measures the percentage of the entire Metro system's own revenue shortfall which could have been offset by alternative municipal tax sources. The revenue shortfall in this table does not include the provincial grant for education. Table 16-9 provides the same analysis, but includes the provincial grant for education. In all cases, the revenue estimates employed in these two tables are based on very conservative tax yields calculated in chapter 11. A modest municipal income tax would have yielded the greatest source of revenue with the sales tax following some distance behind. In fact, the income tax would have more than covered the fiscal imbalance in all years with the exception of 1974 where it was marginally less than the fiscal imbalance. If the provincial grant for education is included in the measure of fiscal imbalance, (as reported in Table 16-9), then municipal income tax would have absorbed between 61 per cent and 42 per cent of the revenue shortfall between 1969 and 1974. While municipal income tax appears to have the greatest potential in terms of its revenue yield, a municipal sales tax could also offset a substantial amount of the revenue shortfall; (see column 3 in Tables 16-8 and 16-9). The remaining three taxes (columns 4, 5 and 6 of Tables 16-8 and 16-9) appear to be much less important in terms of their ability to offset the fiscal imbalance, at least at the relatively low rates considered in this study.

### iii) Expenditures

An alternative way of reducing the fiscal imbalance would be to reduce or eliminate certain municipal expenditures. Some people have suggested that expenditures for human services as distinct from services accruing to property ought not to be met by revenues from the property tax. Since the property tax has been the main source of revenue for local municipalities the argument follows that these human service functions should be the responsibility of the provincial government. To shed some light on these proposals, we estimated the reduction in the fiscal imbalance which might have occurred had the Municipality of Metropolitan Toronto's expenditures on police, the Toronto Transit Commission and social services been the responsibility of the provincial government rather than Metropolitan Toronto for each of the years 1969 to 1974. These specific services have been chosen for two reasons. First, the elimination of these expenditures from Metro's budget will provide us with a clear illustration of the kind of reduction in the fiscal imbalance which might be achieved by dropping certain expenditures. Second, and more important, these expenditures currently involve relatively large sums of money and will likely continue to do so in the future.

Table 16-8

Percentage of Metro System's Own Revenue Shortfall  
(Fiscal Imbalance) Which Could Have Been Offset By  
Alternative Tax Sources\*

Year (1)	Municipal Income Tax <sup>1</sup> (2)	Municipal Sales Tax <sup>2</sup> (3)	Municipal Motor Vehicle Tax <sup>3</sup> (4)	Municipal Liquor Sales Tax <sup>4</sup> (5)	Municipal Hotel Room Tax <sup>5</sup> (6)
	%	%	%	%	%
1969	170.8	58.4	21.6	3.9	4.6
1970	160.0	68.7	19.8	3.5	4.9
1971	115.7	49.4	14.4	2.6	3.8
1972	123.3	51.5	14.4	N.A.	4.2
1973	106.5	34.7	12.0	2.2	3.8
1974	98.6	38.0	9.5	2.0	4.3

\* Excluding the provincial grant for education.

N.A. - not available.

Source: <sup>1</sup> Column 5 of Table 11-1 as a per cent of row 3 of Table 14-1. (Row 3 excludes the provincial grant for education.) For 1974, the first figure in column 3 of Table 11-5 was divided by the figure for 1974 in row 3 of Table 14-1.

<sup>2</sup> Column 5 of Table 11-9 as a per cent of row 3 of Table 14-1.

<sup>3</sup> The sum of columns 3, 5, and 7 of Table 11-13 and columns 2, 3 of Table 11-14 as a percent of row 3 of Table 14-1.

<sup>4</sup> Column 9 of Table 11-15 as a per cent of row 3 of Table 14-1.

<sup>5</sup> Column 8 of Table 11-17 as a per cent of row 3 of Table 14-1.

Table 16-9

Percentage of Metro System's Own Revenue Shortfall  
Which Could Have Been Offset by Alternative Tax Sources\*

Year	Municipal Income Tax <sup>1</sup>	Municipal Sales Tax <sup>2</sup>	Municipal Motor Vehicle Tax <sup>3</sup>	Municipal Liquor Sales Tax <sup>4</sup>	Municipal Hotel Room Tax <sup>5</sup>
(1)	(2)	(3)	(4)	(5)	(6)
	%	%	%	%	%
1969	60.9	20.8	7.7	1.4	1.6
1970	55.2	23.7	6.8	1.2	1.7
1971	42.1	18.0	5.3	1.0	1.4
1972	44.6	18.6	5.2	N.A.	1.5
1973	45.3	14.8	5.1	0.9	1.6
1974	45.2	17.4	4.4	0.9	2.0

\* Including the provincial grant for education.

N.A. - not available.

Source: <sup>1</sup>Column 5 of Table 11-1 as a per cent of row 5 of Table 14-1. (Row 5 includes the provincial grant for education.) For 1974, first figure in column 3 of Table 11-5 was divided by the figure for 1974 in row 5 of Table 14-1.

<sup>2</sup>Column 5 of Table 11-9 as a per cent of row 5 of Table 14-1.

<sup>3</sup>The sum of columns 3, 5 and 7 of Table 11-13 and columns 2, 3 and 4 of Table 11-14 as a per cent of row 5 of Table 14-1.

<sup>4</sup>Column 9 of Table 11-15 as a per cent of row 5 of Table 14-1.

<sup>5</sup>Column 8 of Table 11-17 as a per cent of row 5 of Table 14-1.



Table 16-10 shows that for all years, the entire fiscal imbalance (as determined by calculating expenditures exclusive of the educational expenditures financed from the provincial grant for education) could have been more than eliminated (the sum of columns 3, 6 and 9) by removing these expenditures from the responsibility of Metro and passing them on to the provincial government. If one includes the expenditures from the provincial grant for education, well in excess of 60 per cent of the fiscal imbalance could have been eliminated (the sum of columns 4, 7 and 10) for each of the years presented. In fact, in 1974, over 70 per cent of this imbalance could have been removed. If one were to illustrate the effect of shifting the educational expenditures from Metro's responsibility to the provincial government, the fiscal imbalance (regardless of how it was measured) would be more than eliminated for each of the years studied. In fact, the educational expenditures were considerably higher than the fiscal imbalance in each of the years.

In summary, the analysis in this chapter advocates greater use of the property tax; outlines the potential revenue yield from the implementation of a number of alternative municipal revenue sources; and illustrates the effects of eliminating certain expenditure functions from municipal jurisdiction. This analysis has dealt with the past and essentially ignored the future because of the uncertainty surrounding the future of the property tax and the impossibility of predicting what will happen to conditional and unconditional grants since these may very well change as a result of property tax reform. Indeed, there are many who believe that grants (conditional and unconditional) cannot continue as in the past.

While we are not prepared to predict or estimate the future level of grants, we do feel that it would be useful to engage in a brief presentation of the impact on residential property taxation of a one per cent reduction in total grants for the time period 1969 to 1974. If grants had been one per cent lower and this shortfall in revenue had been met instead by the residential property tax, property taxes per household would have been higher by .99¢ in 1969, \$1.45 in 1971, and \$2.17 in 1974. If part of the shortfall in revenue had been met by realty taxes on business or the business tax, then per household residential tax increases would have been lower still.

In light of the future uncertainty with respect to both grants and property taxes, no attempt has been made to extend our past analysis into the future. Expenditures on services such as police, transit and social welfare will almost certainly increase. The method of financing these and other local expenditures will depend on structural and financial choices that have not yet been made at the political level.

Table 16-10

Percentage of Metro System's Fiscal Imbalance Removed by the  
Elimination of Certain Expenditure Responsibilities

Year	Police Expenditure <sup>1</sup> (000)	Percentage of Fiscal Imbalance Removed by Elimination of Police Expenditure	Toronto Transit Commission <sup>1</sup> Expenditure (000)	Percentage of Fiscal Imbalance Removed by Elimination of T.T.C. Expenditure	Social <sup>1</sup> Services Expenditure (000)	Percentage of Fiscal Im- balance Removed			
(1)	(2)	(3) <sup>2</sup>	(4) <sup>3</sup>	(5)	(6) <sup>4</sup>	(7) <sup>5</sup>	(8)	(9) <sup>6</sup>	(10) <sup>7</sup>
1969	\$43,799	91.2%	32.5%	\$ 0	-	-	\$49,632	103.4%	36.9%
1970	50,758	93.4	32.2	0	-	-	67,399	124.0	42.8
1971	59,051	73.4	26.7	2,050	2.5%	0.9%	86,131	107.1	39.0
1972	66,935	77.1	27.9	7,105	8.2	3.0	81,331	93.7	33.9
1973	76,656	65.3	27.8	18,177	15.5	6.6	79,717	67.9	28.9
1974	93,053	66.5	30.4	34,336	24.5	11.2	92,564	66.1	30.3

<sup>1</sup>Figures were obtained from The Annual Report of the Commissioner of Finance for the Municipality of Metropolitan Toronto for each of the years 1969 to 1974.

<sup>2</sup>Column 2 as a per cent of row 3 of Table 14-1. Excludes provincial grant for education from total expenditures.

<sup>3</sup>Column 2 as a per cent of row 5 of Table 14-1. Includes " " " " " "

<sup>4</sup>Column 5 as a per cent of row 3 of Table 14-1. Excludes " " " " " "

<sup>5</sup>Column 5 as a per cent of row 5 of Table 14-1. Includes " " " " " "

<sup>6</sup>Column 8 as a per cent of row 3 of Table 14-1. Excludes " " " " " "

<sup>7</sup>Column 8 as a per cent of row 5 of Table 14-1. Includes " " " " " "



APPENDICES





Appendix A

TABLE A-1

Per Household Expenditures by Selected Functions

1968

	Metro		Regions		Rest of Province		Total Local Sector	
	P.H.	% of Total	P.H.	% of Total	P.H.	% of Total	P.H.	% of Total
Gen. Government	47	4.7	N. A.		36	5.8	39	5.4
Protection	124	12.4	N. A.		70	11.2	85	11.7
Public Works	153	15.3	N. A.		106	17.0	120	16.5
Sanitation	71	7.1	N. A.		40	6.4	48	6.6
Health, etc.	98	9.8	N. A.		40	6.4	52	7.2
Recreation & Communication	65	6.5	N. A.		31	5.0	40	5.5
Education	411	41.1	N. A.		243	39.0	294	40.4
Total	999	100.0	N. A.		623	100.0	727	100.0

P.H. - per household.

N.A. - not applicable since there were no other regions in existence in 1968.

The expenditure figures do not include the provincial grant for education. For a justification of this approach, see footnote 1 of Chapter 3. Per household functions will not equal the total since some minor expenditure functions have not been included.

Source: Figures were calculated from data presented in: Municipal Financial Information, Ministry of Treasury, Economics and Intergovernmental Affairs, Toronto, 1968, 1971, 1974.

Appendix A

TABLE A-2

Per Household Expenditures by Selected Functions  
1971

	Metro		Regions		Rest of Province		Total Local Sector	
	P.H. (\$)	% of Total	P.H. (\$)	% of Total	P.H. (\$)	% of Total	P.H. (\$)	% of Total
Gen. Government	46	3.9	51	5.0	40	5.6	43	4.9
Protection	163	13.9	126	12.5	92	12.9	116	13.2
Public Works	174	14.8	174	17.2	130	18.3	138	15.7
Sanitation	73	6.2	58	5.7	49	6.9	56	6.4
Health, etc.	153	13.0	139	13.8	54	7.6	91	10.4
Recreation & Communication	88	7.5	53	5.2	43	6.0	56	6.4
Education	429	36.6	347	34.4	236	33.2	308	35.0
Total	1173	100.0	1010	100.0	711	100.0	879	100.0

---

Footnotes are the same as in Table A-1

Appendix A

TABLE A-3

Per Household Expenditures by Selected Functions  
1974

	Metro		Regions		Rest of Province		Total Local Sector	
	P.H. (\$)	% of Total	P.H. (\$)	% of Total	P.H. (\$)	% of Total	P.H. (\$)	% of Total
Gen. Government	57	4.3	107	9.7	75	9.3	88	8.4
Protection	215	16.2	161	14.5	111	13.8	156	14.8
Public Works	215	16.2	198	17.9	196	24.4	202	19.2
Sanitation	85	6.4	86	7.8	58	7.2	75	7.1
Health, etc.	156	11.7	129	11.7	81	10.1	118	11.2
Recreation & Communication	114	8.6	91	8.2	54	6.7	83	7.9
Education	446	33.6	315	28.5	216	26.9	317	30.1
Total	1329	100.0	1107	100.0	803	100.0	1053	100.0

---

Footnotes are the same as in Table A-1.



# Appendix B

## Total Expenditures \$(000) for 1968 and 1974

Municipality	1968	1974
City of Toronto	\$ 80,548	\$ 125,150
Borough of East York	7,331	10,627
Borough of Etobicoke	23,037	40,150
Borough of North York	32,612	57,069
Borough of Scarborough	21,435	43,491
Borough of York	10,202	16,669
Metro Alone <sup>1</sup>	171,126	330,081
Metro System <sup>1</sup>	346,297	653,428
Total Education Expenditure	318,550	495,762
Metro System <sup>2</sup>	664,847	1,149,240

<sup>1</sup>Excludes educational expenditure.

<sup>2</sup>Includes total educational expenditure.

SOURCE: Calculated from data in Appendices B and K and Table 3-1.

Per Household Expenditure and Expenditures as a Percentage of Total Expenditures  
for Metro and the Area Municipalities for the Years 1968 to 1974

1968	Toronto				East York		Etobicoke		North York		Scarborough		York		Metro Alone		Total	
	per household \$	as a % of Total	p.h. \$	%	p.h. \$	%	p.h. \$	%	p.h. \$	%	p.h. \$	%	p.h. \$	%	p.h. \$	%	p.h. \$	%
Gen. Gov't.	51.39	14.9	19.49	9.7	27.84	9.2	14.44	5.2	33.00	11.9	22.93	10.4	12.85	1.8	47.17	4.72		
Protection	72.94	21.2	42.67	21.2	52.34	17.2	41.28	14.9	50.20	18.1	44.31	20.2	67.14	9.6	123.93	12.40		
Pub. Works	77.40	22.5	42.31	21.0	76.70	25.3	82.35	30.0	68.59	24.7	40.54	18.5	81.03	11.6	153.10	15.32		
Sanitation	36.70	10.7	25.71	12.7	46.78	15.4	41.58	15.1	63.22	22.8	32.37	14.8	29.53	4.2	70.97	7.10		
Health, etc.	22.21	6.4	7.84	3.9	20.19	6.7	12.96	7.4	12.24	4.4	21.08	9.6	78.40	11.2	97.73	9.78		
Rec. & Comm.	61.31	17.8	44.13	21.9	61.57	20.3	47.92	17.4	40.59	14.6	40.41	18.4	11.91	1.7	65.13	6.52		
Comm. Pl.	10.44	3.0	1.92	.9	4.53	1.5	5.45	2.0	2.88	1.0	3.42	1.6	1.69	2.4	8.29	.83		
Financial	11.98	3.5	17.49	8.7	13.49	4.4	2.06	.8	4.68	1.7	7.44	6.5	8.47	1.2	17.68	1.77		
Other	.14	0	0	0	0	0	20.11	7.3	2.19	.8	6.93	0	0	0	4.93	.49		
Education	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	410.51	41.1		
Total	344.50	100.	201.55	100.	303.47	100.	275.73	100.	277.82	100.	219.43	100.	701.53	100.	999.43	100.		
1969																		
Gen. Gov't.	54.34	14.4	22.86	11.4	30.52	9.4	15.32	5.6	32.93	10.7	22.79	9.8	13.04	1.7	48.80	4.52		
Protection	84.05	22.3	45.42	22.8	56.31	17.4	43.49	15.8	56.52	18.4	47.86	20.6	76.69	10.1	139.72	12.94		
Pub. Works	79.97	21.2	29.85	15.0	81.15	25.0	75.96	27.6	66.10	21.5	49.18	21.2	83.38	11.0	155.35	11.37		
Sanitation	36.24	9.6	26.44	13.3	46.73	14.4	42.41	15.4	63.50	20.7	33.20	14.3	30.15	3.9	71.84	6.65		
Health, etc.	21.78	5.8	8.45	4.2	20.96	6.5	19.66	7.1	14.16	4.6	16.43	7.1	83.11	10.9	102.09	9.46		
Rec. & Comm.	61.49	16.3	48.09	24.1	68.45	21.1	54.74	19.9	53.96	17.6	43.53	18.7	15.64	2.1	73.59	6.80		
Comm. Pl.	10.95	2.9	2.23	1.1	4.13	1.3	5.38	2.0	3.03	1.0	4.03	1.7	1.81	.2	8.57	.79		
Financial	28.02	7.4	15.43	7.9	15.66	4.8	1.01	.4	13.63	4.4	8.43	3.6	9.54	1.3	26.03	2.41		
Other	.14	0	.39	0	0	0	17.26	6.3	3.55	1.2	6.87	3.0	0	0	4.74	3.46		
Education	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	448.98	41.59		
Total	376.98	100.	199.16	100.	323.90	100.	275.24	100.	307.38	100.	232.33	100.	762.34	100.	1079.51	100.		



1972	Toronto				East York		Etobicoke		North York		Scarborough		York		Metro Alone		Total	
	per household \$	as a % of Total	p.h. \$	%	p.h. \$	%	p.h. \$	%	p.h. \$	%	p.h. \$	%	p.h. \$	%	p.h. \$	%	p.h. \$	%
Gen. Gov't. Protection	59.12	14.1	26.53	12.7	34.54	9.0	17.65	5.7	35.01	9.3	32.11	10.7	9.11	1.1	48.01	3.97		
Pub. Works	98.98	23.7	55.54	26.5	69.67	18.1	55.02	17.7	64.91	17.2	64.72	21.6	99.61	11.8	174.54	14.45		
Sanitation	83.68	20.0	31.95	15.2	92.94	24.2	106.04	34.2	73.29	19.4	48.09	16.1	98.92	11.7	181.72	15.04		
Health, etc.	39.77	9.5	23.92	11.4	45.77	11.9	31.26	10.1	59.25	15.7	40.40	13.5	38.49	4.5	79.03	6.54		
Rec. & Comm.	26.83	6.4	9.69	4.6	24.89	6.5	19.81	6.4	14.14	3.7	25.86	8.6	124.76	14.7	146.75	12.15		
Comm. Pl.	75.31	18.0	51.15	24.4	98.39	25.6	70.05	22.6	71.38	18.9	67.46	22.5	20.18	2.4	94.65	7.84		
Financial	15.35	3.7	2.55	1.2	4.21	1.1	2.99	1.0	6.99	1.9	4.64	1.5	2.47	.3	10.75	.89		
Other	18.47	4.4	7.88	3.8	14.02	3.6	5.93	1.9	51.39	13.6	8.80	2.9	10.91	1.3	29.41	2.43		
Education	.50	.1	.41	.2	0	0	1.51	.5	1.05	.3	7.24	2.4	0	0	1.24	.1		
Total	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	441.91	36.58		
	418.01	100.	209.61	100.	384.43	100.	310.25	100.	377.42	100.	299.33	100.	846.35	100.	1208.01	100.		
1973																		
Gen. Gov't. Protection	67.12	14.8	26.49	12.0	35.93	8.6	19.71	5.8	41.89	11.1	34.05	10.6	9.73	1.1	53.06	4.19		
Pub. Works	107.41	23.7	59.41	26.9	77.29	18.4	62.14	18.4	66.68	17.7	72.89	22.7	115.26	13.1	196.55	15.53		
Sanitation	93.40	20.6	31.19	14.1	96.34	23.0	93.36	27.6	77.42	20.6	57.04	17.8	114.92	13.1	199.75	15.78		
Health, etc.	39.89	8.8	26.42	11.9	46.39	11.1	33.24	9.8	61.07	16.2	37.86	11.8	43.45	4.9	84.95	6.71		
Rec. & Comm.	30.43	6.7	9.46	4.3	27.58	6.6	23.98	7.1	14.45	3.8	27.95	8.7	123.33	14.0	147.96	11.69		
Comm. Pl.	86.73	19.1	53.84	24.3	112.46	26.8	83.61	24.7	76.87	20.5	71.21	22.2	22.52	2.6	107.13	8.48		
Financial	19.37	4.3	2.89	1.3	5.39	1.3	3.71	1.0	7.44	2.0	5.00	1.6	2.80	.3	12.85	1.02		
Other	8.04	1.8	11.08	5.0	18.39	4.4	17.97	5.3	29.09	7.8	10.17	3.2	5.58	.6	20.85	1.65		
Education	.57	.1	.39	.2	00	0	.29	.1	.99	.3	4.53	1.4	0	0	.77	.06		
Total	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	441.74	34.90		
	452.97	100.	221.11	100.	419.77	100.	338.01	100.	375.89	100.	320.71	100.	879.33	100.	1265.62	100.		

Toronto																						
1974	per household \$	as a % of Total	East York			Etobicoke			North York			Scarborough			York			Metro Alone			Total	
			p.h. \$	%		p.h. \$	%		p.h. \$	%		p.h. \$	%		p.h. \$	%		p.h. \$	%		p.h. \$	%
Gen. Gov't.	72.68	14.9	25.71	10.7		45.86	11.0		23.30	7.2		48.76	12.7		31.24	9.8		9.49	1.0		57.40	4.32
Protection	115.58	23.7	67.47	27.9		79.84	19.1		62.33	19.5		69.30	18.2		75.55	23.7		130.28	13.9		215.49	16.21
Pub. Works	96.76	19.8	30.05	12.4		89.43	21.4		82.61	25.6		79.80	20.9		58.39	18.3		132.30	14.2		215.36	16.20
Sanitation	39.24	8.1	29.03	12.0		39.62	9.5		33.79	10.5		55.69	14.6		38.95	12.2		45.04	4.8		84.86	6.39
Health, etc.	32.03	6.6	10.55	4.4		23.55	5.7		21.10	6.5		15.56	4.1		27.88	8.7		132.27	14.2		156.45	11.77
Rec. & Comm.	87.02	17.8	59.24	24.6		114.10	27.3		86.09	26.7		83.22	21.8		72.64	22.8		27.02	2.9		113.93	8.57
Comm. Pl.	22.01	4.5	3.13	1.3		8.06	1.9		3.39	1.0		12.92	3.4		5.03	1.6		3.26	.3		15.28	1.15
Financial	13.44	2.7	15.91	6.6		17.15	4.1		9.44	2.9		15.36	4.0		9.20	2.9		7.81	.8		20.88	1.57
Other	9.04	1.9	.43	.2		0	0		.11	.1		.99	.3		.02	0.		0	0		3.34	.25
Education	n.a.	n.a.	n.a.	n.a.		n.a.	n.a.		n.a.	n.a.		n.a.	n.a.		n.a.	n.a.		446.00	47.8		446.00	33.56
Total	487.80	100.	241.53	100.		417.59	100.		322.15	100.		381.61	100.		318.91	100.		933.46	100.		1328.97	100.

Source:

Data were obtained from Municipal Financial Information (1973, 1974), Municipal Financial Reports Data (1971, 1972) and Summary of Financial Reports of Municipalities (1968, 1969, 1970), Ontario Government, Toronto and Jarrett, Gould and Elliott, A Financial Profile of Metropolitan Toronto and Its Constituent Municipalities, 1967-1973, Background Report for The Royal Commission on Metropolitan Toronto, Toronto, 1975. Expenditure data exclude provincial grants for education.



Appendix C

Percentage Change in Per Capita Expenditure by Function (1968-1974)

	Total	General Gov't.	Protect-ion	Public Works	Sanit-ation	Health etc.	Rec. & Comm.	Comm'ty Planning	Finan-cial	Education
Toronto	56.1	56.0	74.7	37.8	17.8	59.0	56.5	132.6	23.5	N. A.
East York	28.5	41.4	69.7	(31.2)	21.2	44.5	44.1	74.6	(2.4)	N. A.
Etobicoke	62.1	93.9	79.8	22.7	(0.2)	37.4	118.3	110.2	49.7	N. A.
North York	36.8	89.7	76.8	17.5	(5.1)	20.3	110.3	(38.2)	440.4	N. A.
Scarborough	57.1	67.9	57.8	33.1	0.8	45.7	134.4	419.2	276.6	N. A.
York	63.2	53.0	91.5	61.8	35.1	48.5	101.8	65.5	38.9	N. A.
Metro (alone)	49.7	(20.0)	118.3	83.7	71.5	89.8	155.0	119.2	3.8	N. A.
Total	49.6	36.9	95.6	58.2	58.2	80.1	96.8	107.0	33.1	22.2

Source: Calculated from material cited in the footnote to Appendix A. Figures in parentheses indicate a decrease in per capita expenditures. N.A. means not applicable.

# Appendix D

Percentage Increase (or Decrease) in Per Household Current Expenditures  
by Function for Metro and the Area Municipalities from 1968 to 1974

Municipality	Total Expenditure*	General Gov't.	Protection	Public Works	Sanitation	Health, Social & etc.	Recreation & Comm.	Comm. Planning	Financial Services	Education
Toronto	41.6	41.4	58.5	25.0	6.9	44.2	41.9	110.8	12.2	N.A.
East York	19.8	31.9	58.1	(29.0)	12.9	34.6	34.2	63.0	(9.0)	N.A.
Etobicoke	37.6	64.7	52.5	16.6	(15.3)	16.6	85.3	77.9	27.1	N.A.
North York	16.8	61.4	51.0	3.2	(18.7)	62.8	79.7	(37.8)	358.3	N.A.
Scarborough	37.4	47.8	38.0	16.3	(11.9)	27.1	105.0	348.6	228.2	N.A.
York	45.3	36.2	70.5	44.0	20.3	32.3	79.8	47.1	23.7	N.A.
Metro	41.6	(26.1)	94.0	63.3	52.5	68.7	126.9	92.9	(7.8)	8.6
Total	33.0	21.8	73.9	40.7	19.6	60.1	74.9	84.3	18.1	8.6

\*Excluding Provincial Grant for Education.

Source: Calculated from Appendix A.

Appendix E

Capital Expenditures By Function  
Total, Per Household, and as a Percentage of Total Capital Expenditures

Function	1968	1969	1970	1971	1972	1973	1974
General Government							
Total	2,683	773	993	1,468	5,274	6,454	3,450
Per Household	4.56	1.29	1.53	2.21	7.61	9.36	4.60
% of Total	1.3	.4	.6	.8	2.6	3.3	1.4
Protection							
Total	1,646	3,840	2,869	3,108	7,200	6,442	4,116
Per Household	2.80	6.42	4.42	4.68	10.39	9.34	5.66
% of Total	.8	1.9	1.6	1.6	3.5	3.3	1.7
Public Works							
Total	77,728	61,221	54,967	57,814	54,895	58,759	55,029
Per Household	132.19	102.42	84.69	87.13	79.21	85.21	74.38
% of Total	38.9	30.5	31.4	30.2	26.6	30.3	22.9
Sanitation							
Total	15,404	14,098	13,047	18,637	14,085	25,479	41,697
Per Household	26.20	23.59	20.10	28.09	20.32	36.95	56.33
% of Total	7.7	7.0	7.4	9.7	6.8	13.2	17.3
Health, etc.							
Total	920	2,635	3,378	2,413	5,764	6,330	4,983
Per Household	1.56	4.41	5.20	3.64	8.32	9.18	6.70
% of Total	.5	1.3	1.9	1.3	2.8	3.3	2.1
Recreation & Comm.							
Total	9,734	8,740	10,403	15,162	24,235	21,761	40,080
Per Household	16.55	14.62	16.03	22.85	34.97	31.56	54.08
% of Total	4.9	4.4	5.9	7.9	11.8	11.2	16.6

Function	1968	1969	1970	1971	1972	1973	1974
Comm. Planning							
Total	4,564	2,224	2,676	605	816	2,247	2,816
Per Household	7.76	3.72	4.12	.91	1.18	3.26	3.90
% of Total	2.3	1.1	1.5	.3	.4	1.2	1.2
Rapid Transit							
Total	9,088	16,371	21,878	29,806	42,023	30,535	41,814
Per Household	15.46	27.39	33.71	44.92	60.64	44.28	56.44
% of Total	4.6	8.2	12.5	15.6	20.4	15.8	17.4
Water Works							
Total	6,253	7,699	4,029	4,864	7,616	12,763	14,299
Per Household	10.63	12.88	6.21	7.33	10.99	18.51	19.39
% of Total	3.1	3.8	2.3	2.5	3.7	6.6	5.9
Education							
Total	67,496	80,684	58,999	50,826	40,470	18,569	24,168
Per Household	114.79	134.99	90.90	76.60	58.40	26.93	32.66
% of Total	33.8	40.2	33.7	26.6	19.6	9.6	10.0
Total							
Total	199,566	200,859	175,286	191,348	206,183	193,688	240,819
Per Household	339.39	336.04	270.08	288.37	297.51	280.89	325.39
% of Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

% - per cent of total for each year.

Source: Jarrett, Gould and Elliott, *op.cit.* with the exception of educational expenditures which were obtained from the Metropolitan Toronto School Board. These figures for education include new school construction but exclude permanent improvements. However, this latter item is not very large.

Appendix F

Total Expenditure by Function for Each Municipality

in Constant-Dollars (1968 = 100)

(000)

Function/Municipality	1968	1969	1970	1971	1972	1973	1974
General Government							
Metro	7,556	7,496	3,942	4,571	5,593	5,560	5,265
Toronto	12,015	12,073	13,092	13,783	13,066	13,464	13,978
East York	709	799	749	780	975	925	813
Etobicoke	2,116	2,282	2,338	2,418	2,731	2,616	3,305
North York	1,708	1,861	2,034	2,109	2,502	2,612	3,094
Scarborough	2,564	2,510	2,544	2,793	3,162	3,721	4,166
York	1,066	1,026	1,236	1,388	1,442	1,415	1,224
Total	27,734	28,049	25,934	27,841	29,471	30,314	31,843
Protection							
Metro	39,480	44,076	49,644	56,366	61,145	65,848	72,276
Toronto	17,054	18,676	19,751	20,967	21,874	21,546	22,229
East York	1,552	1,588	1,754	1,892	2,042	2,075	2,133
Etobicoke	3,973	4,212	4,775	5,361	5,508	5,629	5,754
North York	4,882	5,286	6,368	7,248	7,802	8,236	8,287
Scarborough	3,873	4,308	4,837	5,357	5,862	5,923	5,921
York	2,060	2,157	2,518	2,750	2,906	3,029	2,960
Total	72,874	80,301	89,648	99,941	107,139	112,286	119,549



Function/Municipality	1968	1969	1970	1971	1972	1973	1974
<b>Public Works</b>							
Metro	47,648	29,163	31,227	32,653	60,719	65,654	73,397
Toronto	18,098	17,768	19,316	20,792	18,492	18,737	18,610
East York	1,539	1,043	1,366	1,429	1,174	1,089	950
Etobicoke	5,822	6,069	6,716	7,065	7,348	7,017	6,445
North York	9,740	9,231	9,754	13,777	15,036	12,374	10,970
Scarborough	5,292	5,038	6,129	7,125	6,619	6,877	6,818
York	1,885	2,216	1,898	2,067	2,159	2,307	2,288
Total	90,024	70,529	76,407	84,909	111,549	114,118	119,478
<b>Sanitation</b>							
Metro	17,364	17,328	19,410	21,743	23,628	24,823	24,989
Toronto	8,581	8,053	7,729	7,502	8,790	8,002	7,546
East York	935	924	887	924	879	923	918
Etobicoke	3,551	3,495	3,404	3,349	3,618	3,379	2,855
North York	4,918	5,154	5,430	4,087	4,432	4,405	4,487
Scarborough	4,878	4,839	4,728	4,982	5,351	5,425	4,758
York	1,505	1,496	1,694	1,793	1,814	1,573	1,526
Total	41,732	41,289	43,282	44,380	48,513	48,530	47,079
<b>Health, Social &amp; Fam. Serv.</b>							
Metro	46,102	47,763	63,239	81,628	76,580	70,458	73,384
Toronto	5,193	4,839	4,868	5,341	5,930	6,105	6,160
East York	285	295	333	388	356	331	334
Etobicoke	1,533	1,567	1,665	1,823	1,968	2,008	1,697
North York	2,429	2,389	2,109	2,391	2,810	3,179	2,802
Scarborough	944	1,079	1,183	1,033	1,277	1,283	1,329
York	980	740	787	846	1,161	1,162	1,092
Total	57,466	58,674	74,184	93,542	90,082	84,526	86,798

Function/Municipality	1968	1969	1970	1971	1972	1973	1974
<b>Recreation &amp; Comm. Serv.</b>							
Metro	7,003	8,988	9,333	10,607	12,390	12,865	14,989
Toronto	14,334	13,663	15,169	16,081	16,644	17,399	16,737
East York	1,605	1,681	1,826	1,897	1,880	1,881	1,873
Etobicoke	4,674	5,119	5,593	6,743	7,779	8,191	8,223
North York	5,668	6,652	7,915	10,346	9,933	11,081	11,433
Scarborough	3,132	4,113	4,875	5,411	6,446	6,829	7,109
York	1,879	1,962	2,149	2,564	3,029	2,959	2,846
Total	38,295	42,178	46,870	53,649	58,101	61,204	63,210
<b>Community Planning</b>							
Metro	992	1,040	1,280	1,382	1,514	1,600	1,810
Toronto	2,440	2,434	2,656	2,835	3,391	3,886	4,233
East York	70	78	80	92	94	101	99
Etobicoke	344	309	320	323	333	393	581
North York	645	654	615	620	424	492	450
Scarborough	222	231	282	264	632	661	1,104
York	159	182	200	214	208	208	197
Total	4,872	4,927	5,432	5,729	6,596	7,341	8,475
<b>Financial Services</b>							
Metro	4,983	5,484	6,916	7,088	6,696	3,187	4,334
Toronto	2,801	6,226	6,653	7,640	4,081	1,612	2,584
East York	636	539	131	218	290	387	503
Etobicoke	1,024	1,171	1,027	1,818	1,108	1,340	1,236
North York	244	123	1,277	1,293	841	2,381	1,254
Scarborough	361	1,038	1,135	2,320	4,641	2,584	1,313
York	346	379	232	560	395	423	361
Total	10,395	14,962	17,372	20,936	18,053	11,914	11,585

Function/Municipality	1968	1969	1970	1971	1972	1973	1974
Education							
Metro	241,388	258,043	287,900	262,193	271,263	252,362	247,434
Totals							
Metro	412,516	438,138	491,834	499,864	519,528	502,356	517,877
Toronto	80,548	83,763	89,329	95,042	92,382	90,866	93,815
East York	7,331	6,961	7,140	7,633	7,706	7,724	7,634
Etobicoke	23,037	24,225	25,839	28,901	30,393	30,572	30,097
North York	32,612	33,448	37,551	43,648	43,995	44,800	42,781
Scarborough	21,435	23,425	25,825	29,471	34,085	33,391	32,602
York	10,202	10,469	11,019	12,553	13,440	13,327	12,496
Total	587,682	620,429	688,536	717,112	741,529	723,036	737,302

Appendix G

Calculation of Disaggregation of Total Percentage Increases  
in Expenditures into Inflation, Volume of Service  
and Level of Service

The calculation for the percentage increase in expenditure due to inflation is found, simply, by subtracting the percentage increase in total expenditures in constant dollars from the percentage increase in total expenditure in current dollars, and dividing this amount by the total percentage increase in expenditure from 1968 to 1974 in current dollars.

The calculation of the percentage increase in expenditure due to increased level of service is found by subtracting the percentage increase in per household expenditure in constant dollars from the percentage increase in per household expenditure in current dollars, and dividing this amount by the percentage increase in per household expenditure in current dollars, and subtracting the resultant figure (which represents the inflationary component of per household expenditure increases) from 100%, since increases in per household expenditure represent only increases due to inflation or level of service.

Increases in expenditure due to volume of service can then be found by summing the above two components and subtracting from 100%.

This may be more easily seen by following through an example, for the municipality of Toronto.

% increase in total expenditure	
current \$	55.4
constant \$	16.5
% increase in per household expenditure	
current \$	41.6
constant \$	6.1
% increase in expenditure due to inflation	
$\frac{55.4\% - 16.5\%}{55.4\%}$	= 70.2%
% increase in expenditure due to level of service	
$100\% - \frac{41.6\% - 6.1\%}{41.6\%}$	= 14.7%
% increase in expenditure due to volume of service	
$100\% - (70.2\% + 14.7\%)$	= 15.1%

Appendix H

Projected Percentage Increase (or Decrease) in Expenditure  
by Function for Each Municipality in Constant Dollars for 1980 (1968=100)  
000

GENERAL GOVERNMENT						
	1968	1974	% increase (or decrease)	e	projected % increase (or decrease)	1980
Metro alone	7,556	5,265	(30.3)	-.76	(25.8)	3,907
Toronto	12,015	13,978	16.3	.41	13.9	15,921
East York	709	813	14.6	.37	12.6	915
Etobicoke	2,116	3,305	56.1	1.42	48.3	4,901
North York	1,708	3,094	81.1	2.04	69.4	5,240
Scarborough	2,564	4,166	62.5	1.57	53.4	6,390
York	1,066	1,224	21.7	.55	18.7	1,453
Metro system	27,734	31,843	14.8	.37	12.6	35,849
PROTECTION						
Metro alone	39,480	72,276	83.1	2.09	71.1	123,635
Toronto	17,054	22,229	30.3	.76	25.8	27,973
East York	1,552	2,133	37.4	.94	32.0	2,815
Etobicoke	3,973	5,754	44.8	1.13	38.4	7,965
North York	4,882	8,278	69.5	1.75	60.0	13,203
Scarborough	3,873	5,921	52.9	1.33	45.2	8,598
York	2,060	2,960	43.7	1.10	37.4	4,067
Metro system	72,874	119,549	64.0	1.61	54.7	184,990
PUBLIC WORKS						
Metro alone	47,648	73,397	54	1.36	46.2	107,336
Toronto	18,098	18,610	2.8	.07	2.4	19,053
East York	1,539	950	(38.3)	-.96	(33.0)	640
Etobicoke	5,822	6,445	10.7	.27	9.2	7,037
North York	9,740	10,970	12.6	.32	10.9	12,164
Scarborough	5,292	6,818	28.8	.73	24.8	8,510
York	1,885	2,288	21.4	.54	18.4	2,708
Metro system	90,024	119,478	32.7	.82	27.9	152,788



SANITATION						
	1968	1974	% increase (or decrease)	e	projected % increase (or decrease)	1980
Metro alone	17,364	24,989	43.9	1.10	37.4	34,335
Toronto	8,581	7,546	(12.1)	-.30	(10.2)	6,776
East York	935	918	( 1.8)	-.05	( 1.7)	902
Etobicoke	3,551	2,855	(19.6)	-.49	(16.7)	2,379
North York	4,918	4,487	( 8.8)	-.22	( 7.5)	4,151
Scarborough	4,878	4,758	( 2.5)	-.06	( 2.0)	4,661
York	1,505	1,526	1.1	.04	1.4	1,547
Metro system	41,732	47,079	12.8	.32	10.9	52,201
HEALTH, SOCIAL, AND FAMILY SERVICES						
Metro alone	46,102	73,384	59.2	1.49	50.7	110,560
Toronto	5,193	6,160	18.6	.47	16.0	7,144
East York	285	334	17.0	.43	14.6	383
Etobicoke	1,533	1,697	10.7	.27	9.2	1,853
North York	2,429	2,802	15.4	.39	13.3	3,175
Scarborough	944	1,329	40.7	1.03	35.0	1,794
York	980	1,092	11.1	.29	9.9	1,200
Metro system	57,466	86,798	51.0	1.29	43.9	124,868
RECREATION & COMMUNITY						
Metro alone	7,003	14,989	114.0	2.87	97.6	29,618
Toronto	14,334	16,737	16.8	.42	14.3	19,127
East York	1,605	1,873	16.7	.42	14.3	2,140
Etobicoke	4,674	8,223	75.9	1.91	64.9	13,563
North York	5,664	11,433	101.7	2.56	87.0	21,384
Scarborough	3,132	7,109	127.0	3.20	108.8	14,844
York	1,879	2,846	51.5	1.30	44.2	4,104
Metro system	38,295	63,210	65.1	1.64	55.8	98,456
COMMUNITY PLANNING						
Metro alone	992	1,810	82.5	2.08	70.7	3,090
Toronto	2,440	4,233	73.5	1.85	62.9	6,896
East York	70	99	41.4	1.04	35.4	134
Etobicoke	344	581	68.9	1.74	59.2	925
North York	645	450	(30.2)	-.76	(25.8)	334
Scarborough	222	1,104	397.3	10.0	340.0	4,858
York	159	197	24.0	.61	20.7	238
Metro system	4,872	8,475	73.9	1.86	63.2	13,835

FINANCIAL EXPENSES						
	1968	1974	% increase (or decrease)	e	projected % increase (or decrease)	1980
Metro alone	4,983	4,334	(13.0)	-.33	(11.2)	3,848
Toronto	2,801	2,584	( 7.7)	-.19	( 6.5)	2,417
East York	636	503	(20.9)	-.53	(18.0)	412
Etobicoke	1,024	1,236	20.7	.52	17.7	1,455
North York	244	1,254	414.0	10.42	354.3	5,697
Scarborough	361	1,313	263.6	6.64	225.8	4,277
York	346	361	4.2	.11	3.7	375
Metro system	10,395	11,585	11.4	.29	9.9	12,727
EDUCATION						
Metro system <sup>2</sup>	241,388	247,434	2.5	.06	2.04	252,482
Metro system <sup>2</sup>	318,550	371,636	16.7	.42	14.3	424,706
TOTAL EXPENDITURE I						
Metro alone <sup>1</sup>	412,516	517,877	25.5	.64	21.8	630,774
Toronto	80,548	93,815	16.5	.41	13.9	106,893
East York	7,331	7,634	4.1	.10	3.4	7,894
Etobicoke	23,037	30,097	30.6	.77	26.2	37,976
North York	32,612	42,781	31.2	.79	26.9	54,272
Scarborough	21,435	32,602	52.1	1.31	44.5	47,123
York	10,202	12,496	22.5	.57	19.4	14,918
Metro system <sup>1</sup>	587,682	737,302	25.5	.64	21.8	897,739
TOTAL EXPENDITURE II						
Metro alone <sup>2</sup>	489,728	642,079	31.1	.78	26.5	812,230
Metro system <sup>2</sup>	664,894	861,504	29.9	.75	25.5	1,081,188

e denotes the elasticity coefficient.

1) This excludes provincial grants from education.

2) This includes provincial grants from education.

Source: Calculated from data in Municipal Financial Information, op. cit., and Jarrett, Goold and Elliott, op. cit.

APPENDIX I

Expenditure Projections for Each Function

by Municipality

(constant dollars)

1968 = 100

Figure I-1: General Government - Projected Expenditure For 1980 in Constant Dollars

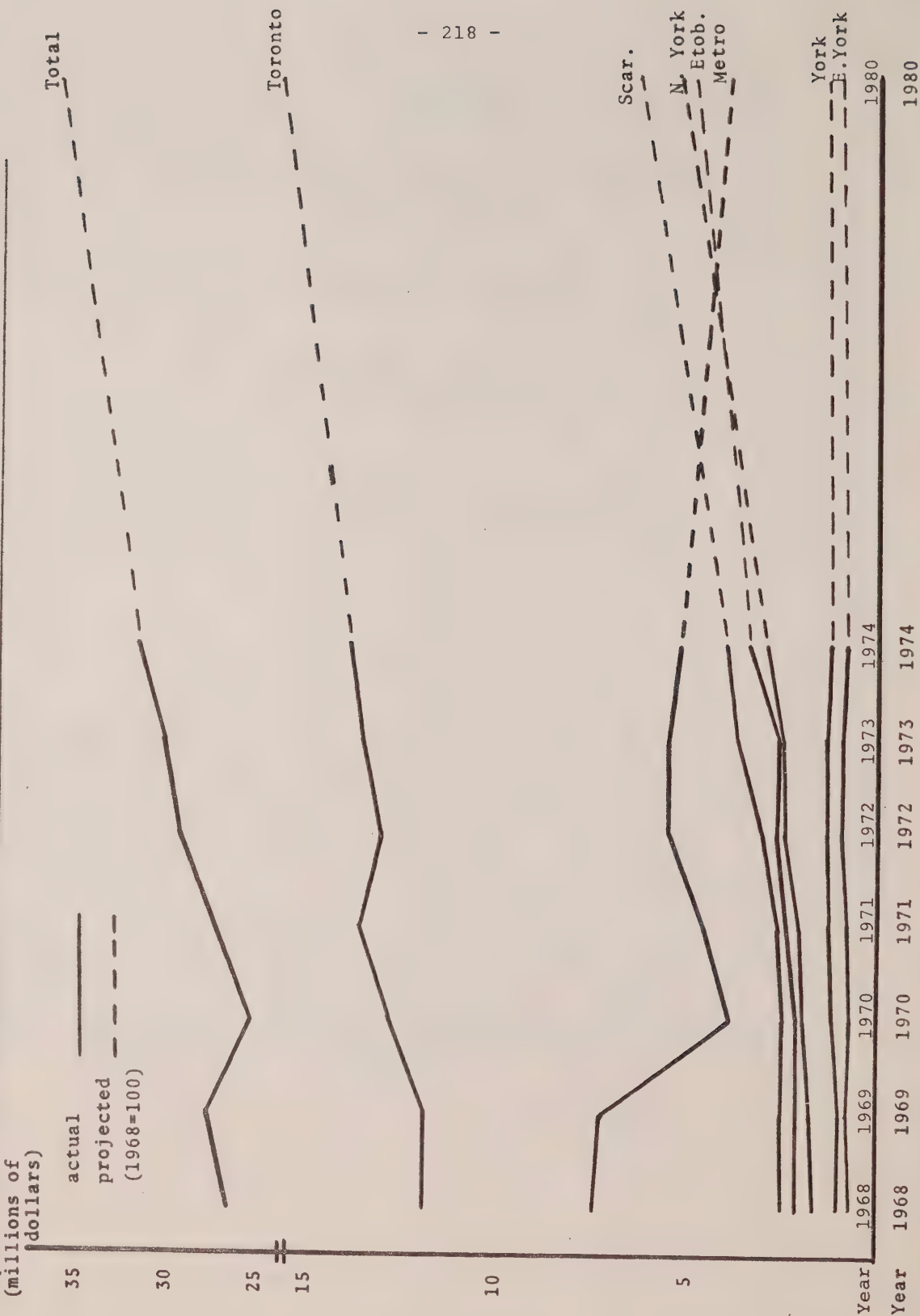


Figure I-2: Protection - Projected Expenditure For 1980 in Constant Dollars

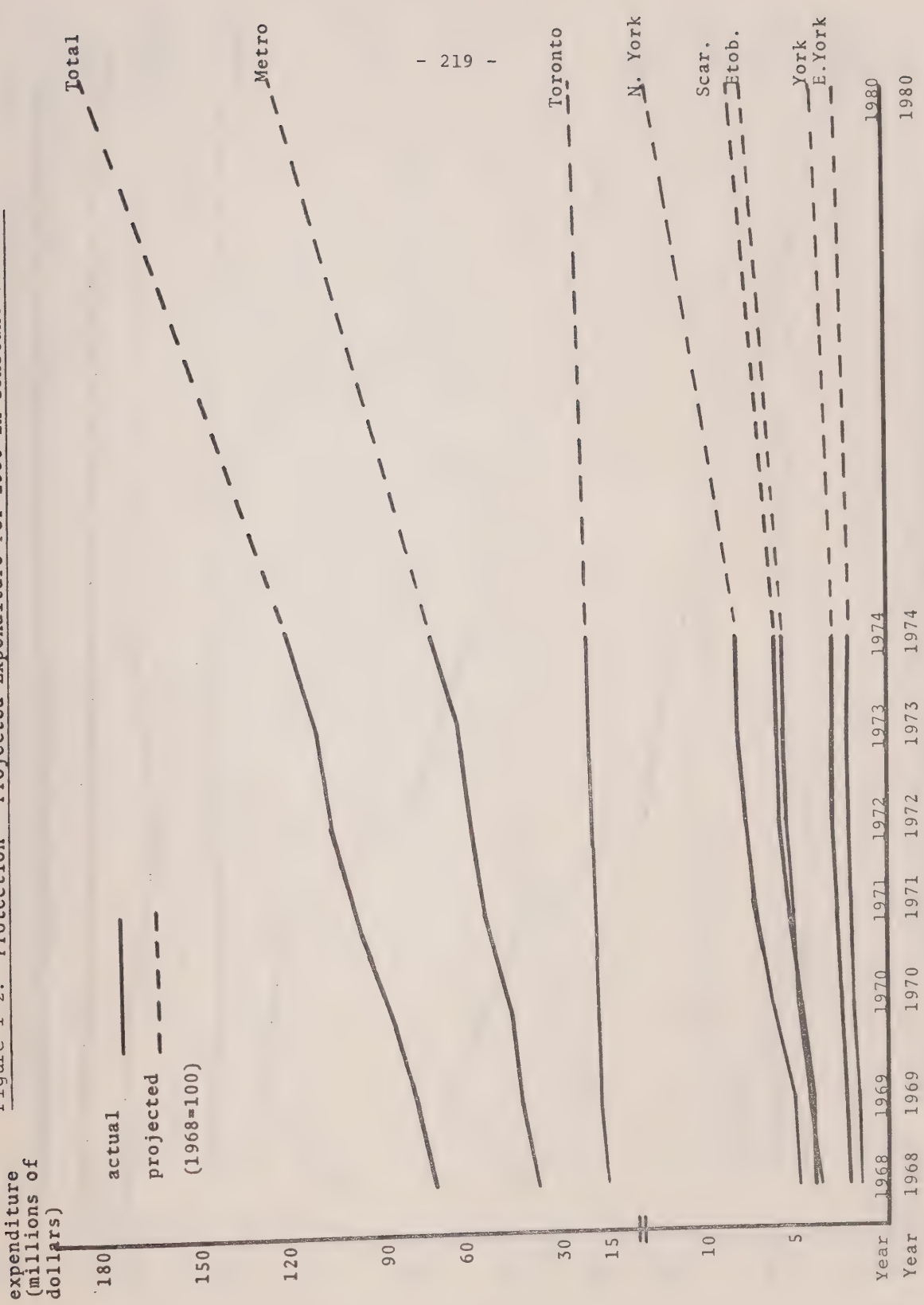




Figure I-3: Public Works - Projected Expenditure for 1980 in Constant Dollars

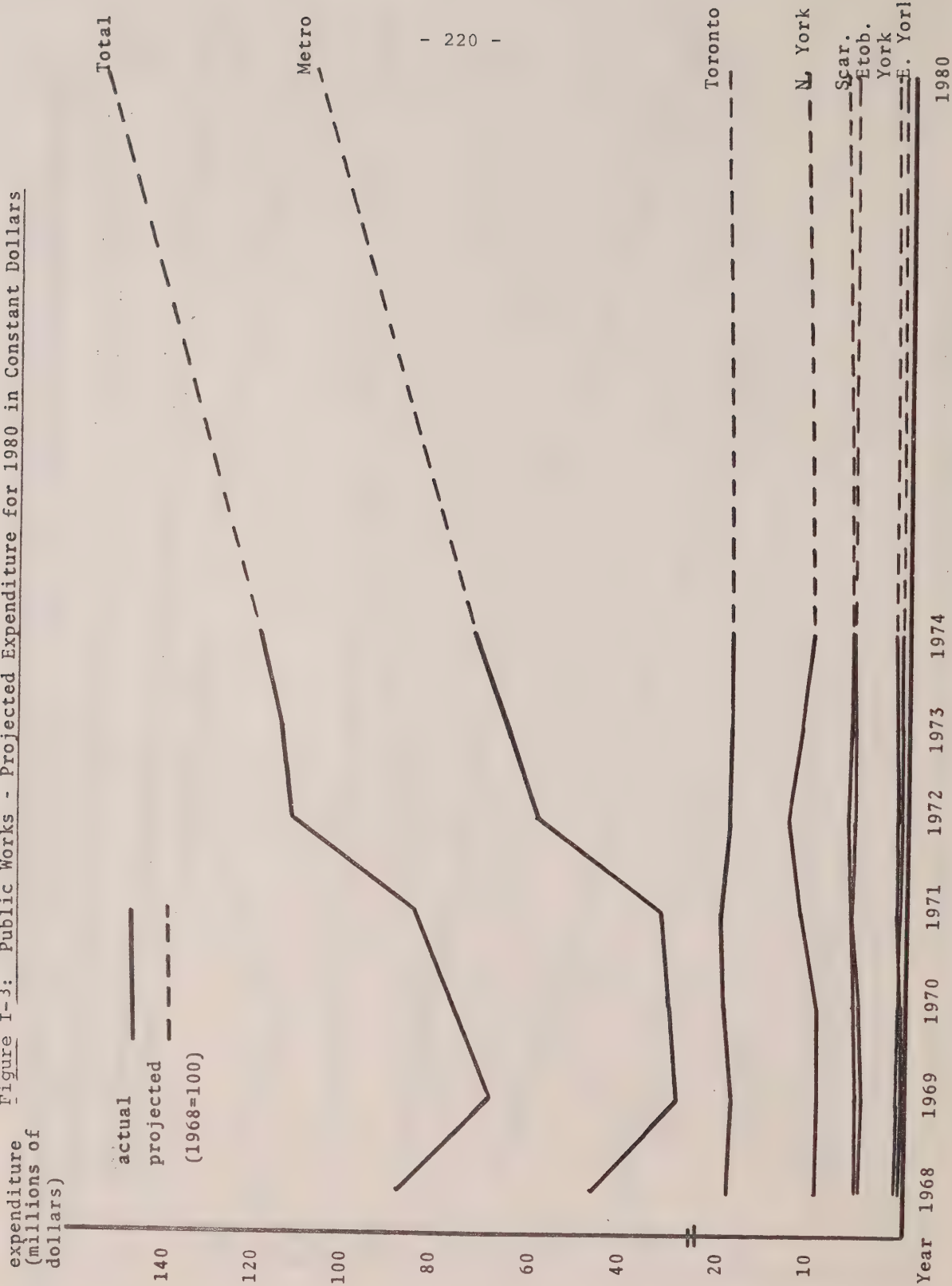


Figure I-4: Sanitation - Projected Expenditures For 1980 in Constant Dollars

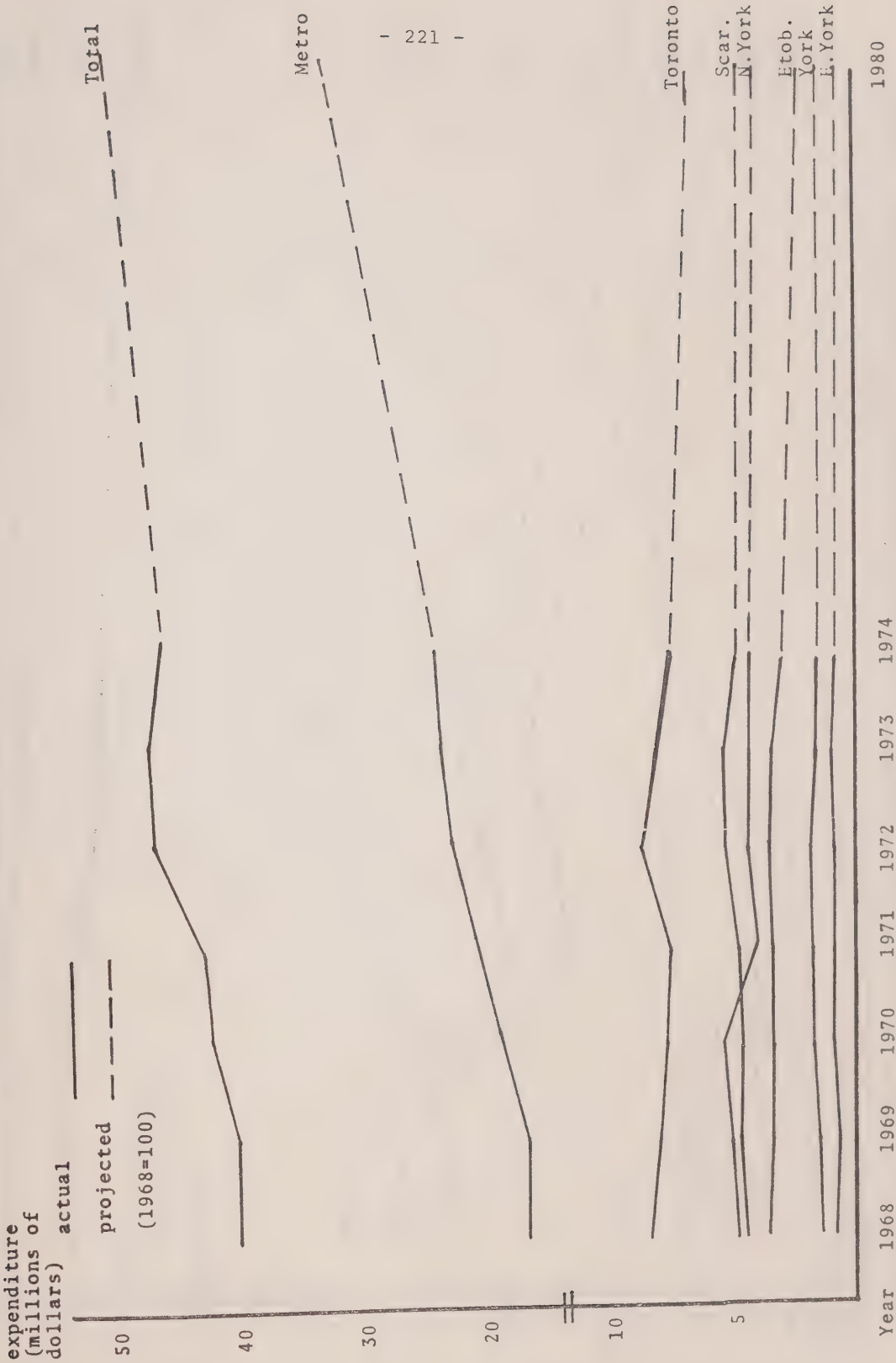


Figure I-5: Health, Social and Family Services - Projected Expenditure For 1980 in Constant Dollars

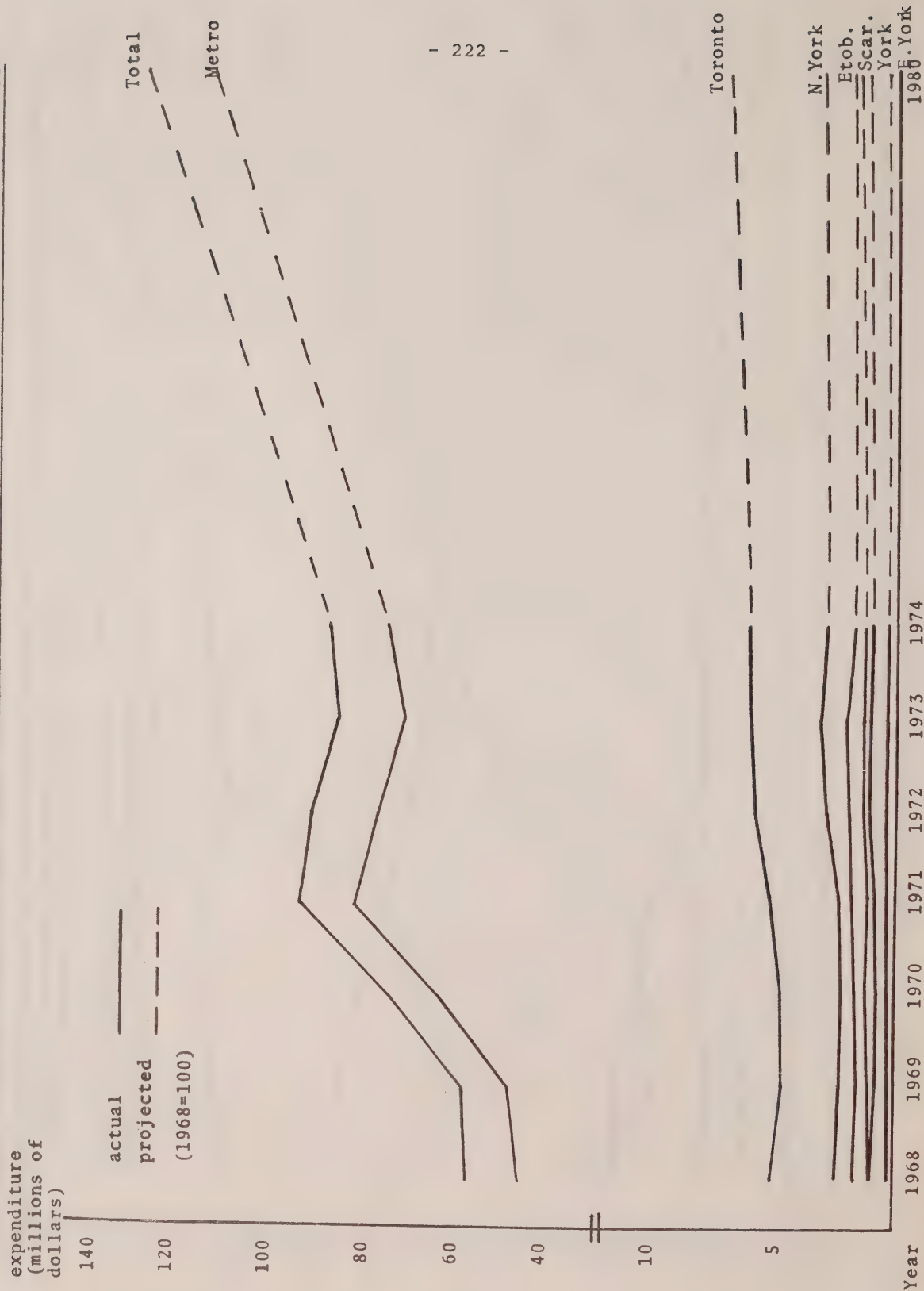


Figure I-6: Recreation and Community Services - Projected Expenditure For 1980 in Constant Dollars

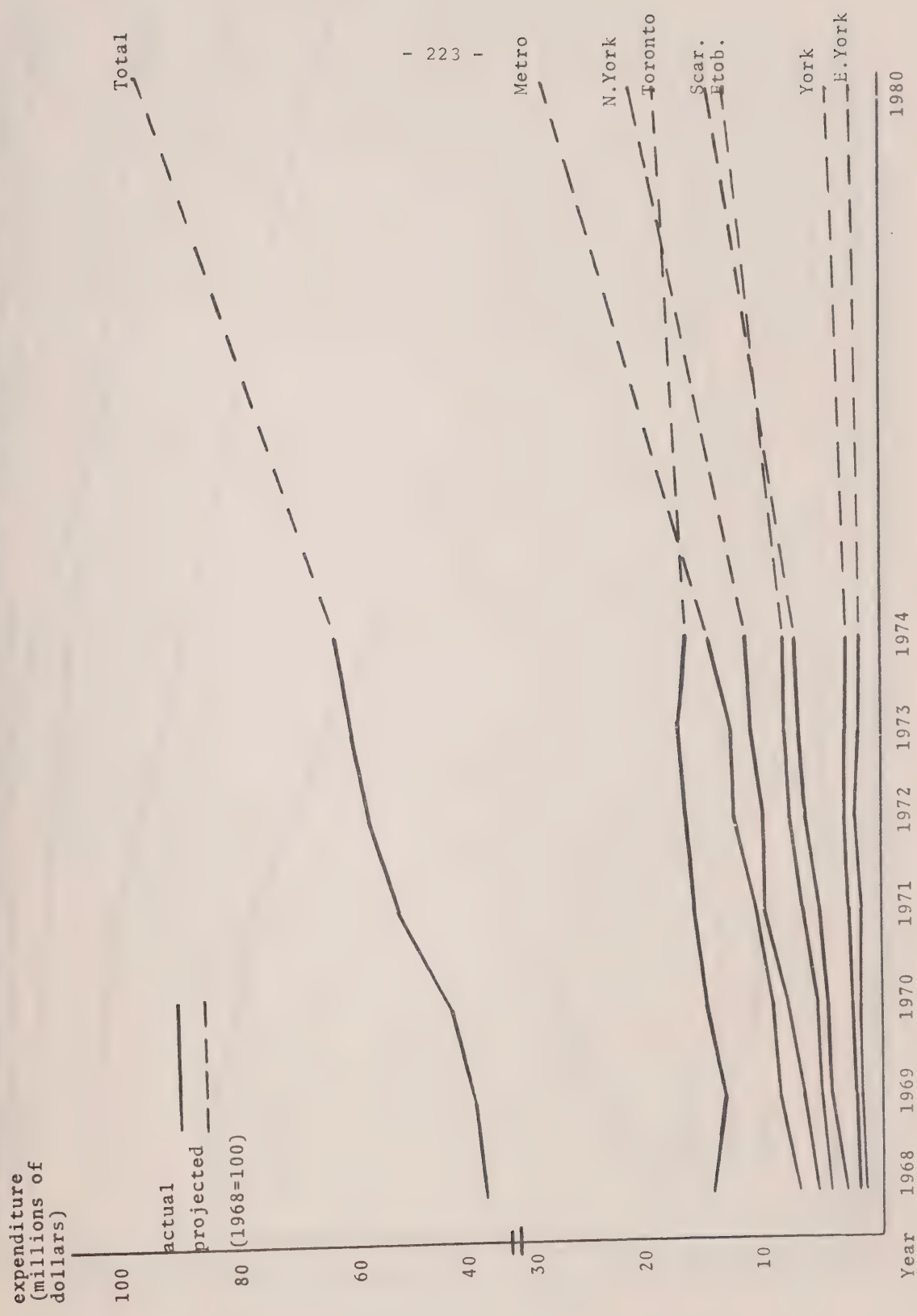


Figure I-7: Community Planning - Projected Expenditure For 1980 in Constant Dollars

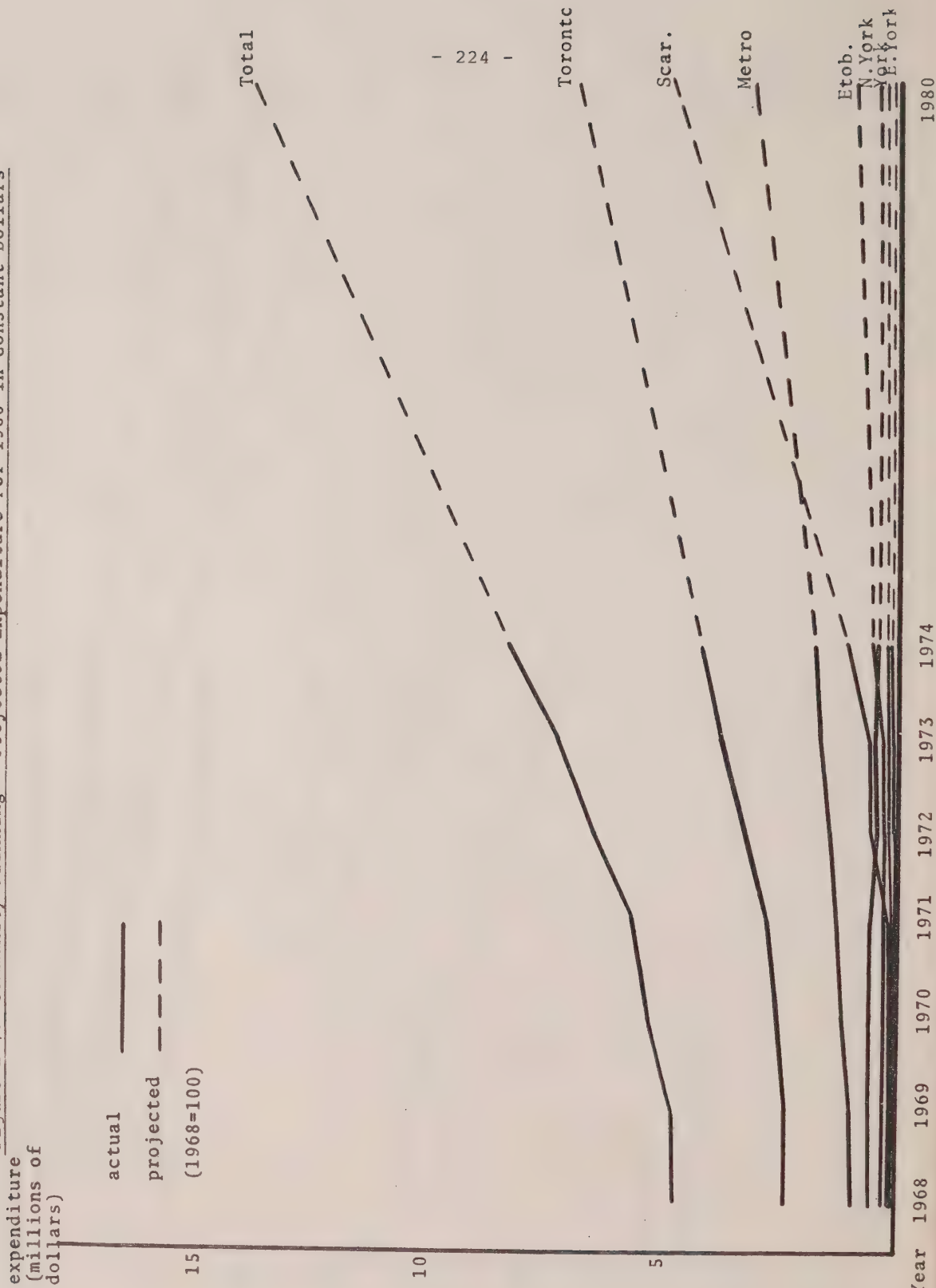




Figure I-8: Financial Expenses - Projected Expenditure For 1980 in Constant Dollars

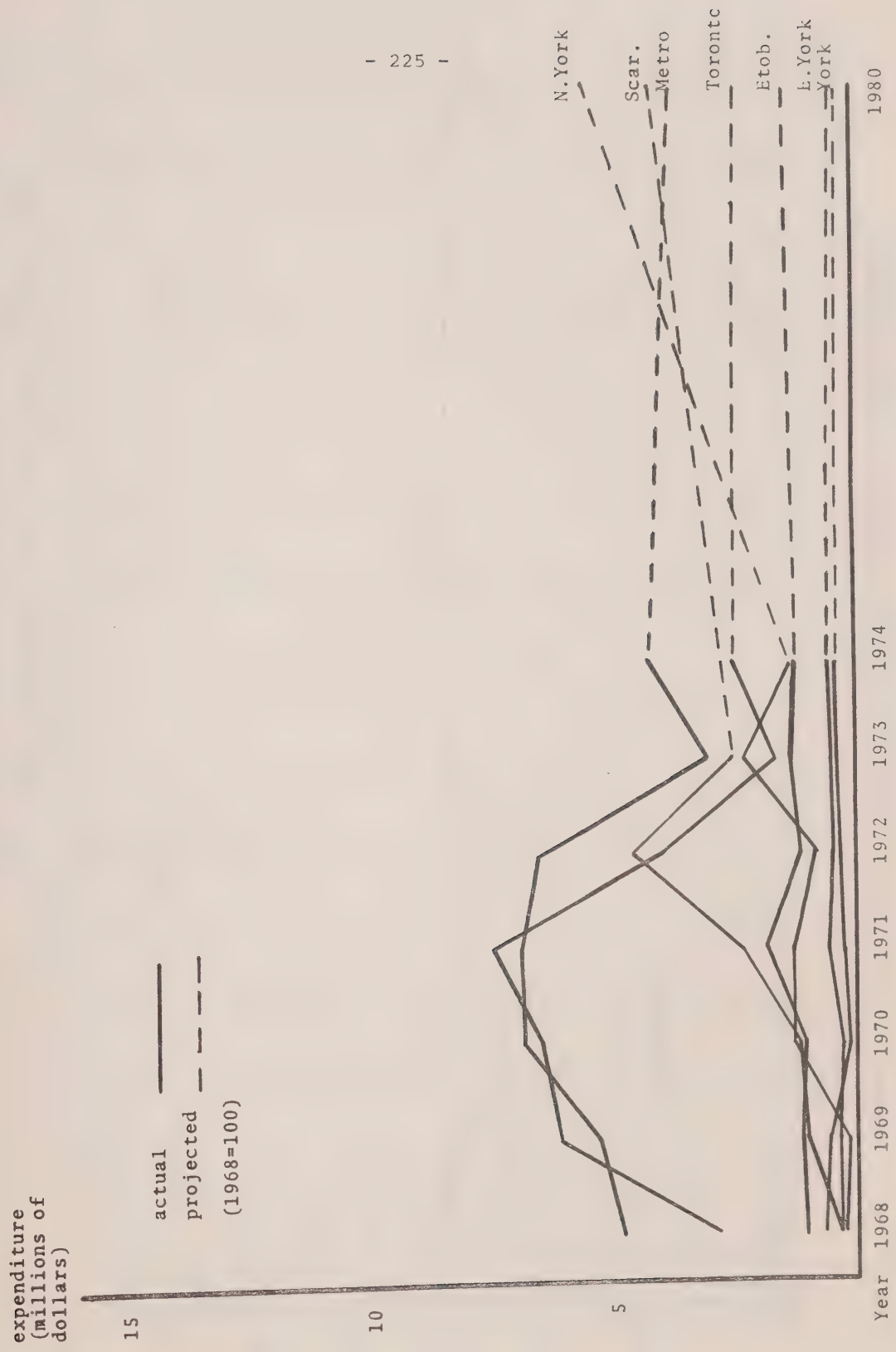
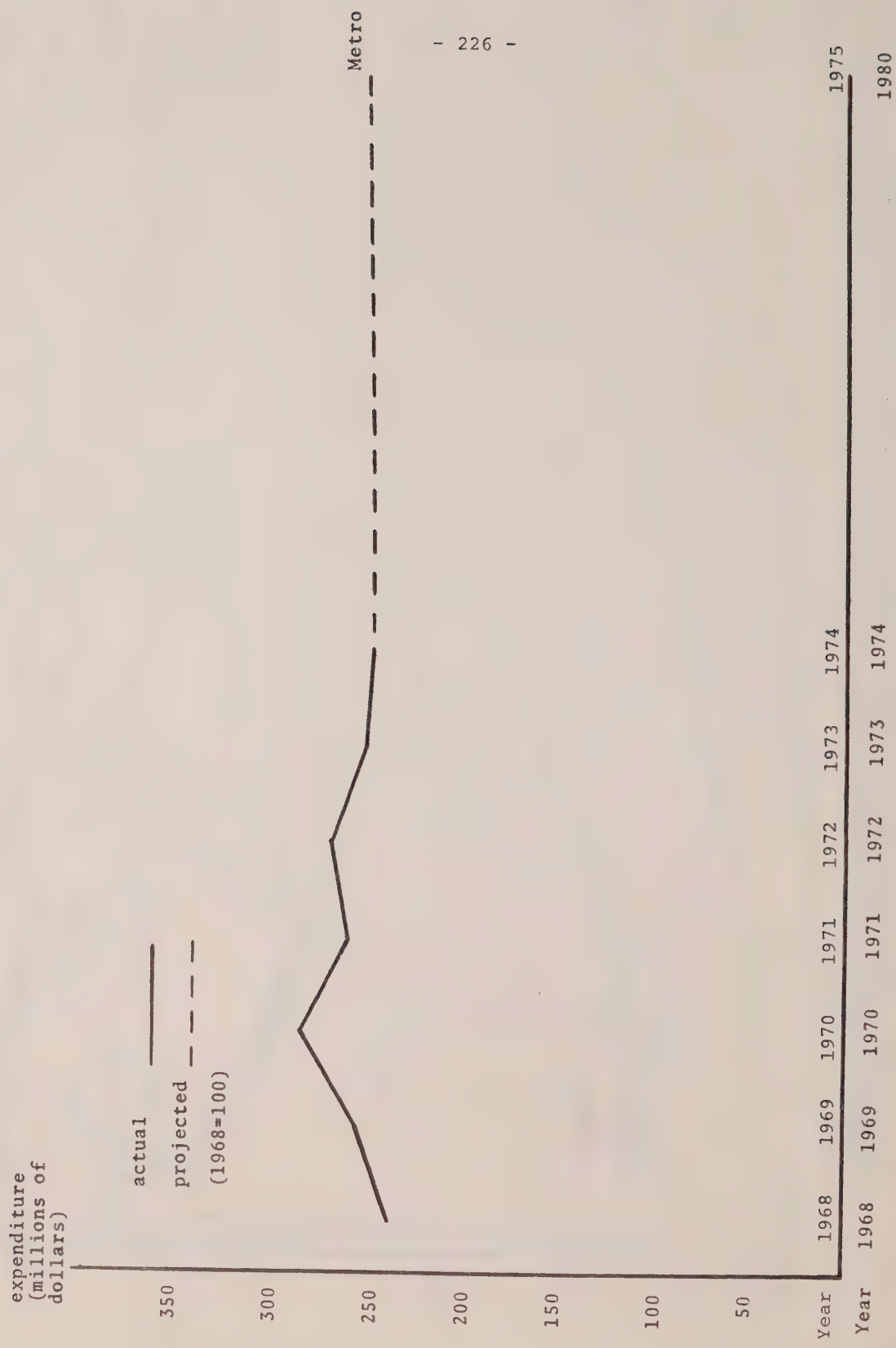


Figure I-9 : Education - Projected Expenditure For 1980 in Constant Dollars



Appendix J

Current Dollar Projections for 1980 - Assuming a 5, 10, or 15 Per Cent Inflation Rate

Rate of Inflation	5%	10%	15%	5%	10%	15%
Factor	(000)	(000)	(000)	(000)	(000)	(000)
	General Government			Protection		
Metro alone	6,986	9,232	12,057	221,059	291,779	381,538
Toronto	28,467	37,621	49,132	50,016	66,100	86,325
East York	1,636	2,162	2,824	5,033	6,652	8,687
Ettobicoke	8,817	11,581	15,124	14,241	18,821	24,580
North York	9,369	12,382	16,171	23,607	31,199	40,744
Scarborough	11,425	15,100	19,720	15,373	20,317	26,533
York	2,598	3,433	4,480	7,272	9,610	12,551
Metro System	64,098	84,711	110,630	330,762	437,131	570,879
	Public Works			Sanitation		
Metro alone	191,917	253,635	331,239	61,391	81,134	105,958
Toronto	34,067	45,022	58,798	12,115	16,012	20,911
East York	1,144	1,512	1,975	1,613	2,131	2,784
Ettobicoke	12,582	16,628	21,716	4,254	5,622	7,342
North York	21,749	28,744	37,538	7,422	9,809	12,810
Scarborough	15,216	20,109	26,262	8,334	11,014	14,384
York	4,842	6,399	8,357	2,766	3,656	4,774
Metro System	273,185	361,038	471,504	93,335	123,351	161,092

- 2 -

Rate of Inflation	5%	10%	15%	5%	10%	15%
Factor	(000)			(000)		
	Health, Social & Family Services			Recreation and Community		
Metro alone						
Toronto	197,681	261,253	341,188	52,957	69,987	91,401
East York	12,773	16,881	22,046	34,199	45,197	59,026
Ethiopia	685	905	1,182	3,826	5,057	6,604
North York	3,313	4,379	5,718	24,251	32,049	41,855
Scarborough	5,677	7,503	9,798	38,235	50,530	65,991
York	3,208	4,239	5,536	26,541	35,076	45,809
Metro System	2,146	2,836	3,703	7,338	9,698	12,665
	223,264	295,063	385,343	176,039	232,652	303,835
	Community Planning			Financial Expenses		
Metro alone						
Toronto	5,525	7,302	9,536	6,880	9,093	11,875
East York	12,330	16,295	21,281	4,322	5,711	7,459
Ethiopia	240	317	414	737	974	1,271
North York	1,654	2,186	2,855	2,602	3,438	4,490
Scarborough	597	789	1,031	10,186	13,462	17,581
York	8,686	11,479	14,992	7,647	10,107	13,199
Metro System	426	562	734	671	886	1,157
	24,737	32,692	42,695	22,756	30,074	39,276
	Education			Total		
Metro alone <sup>1</sup>						
Metro alone <sup>2</sup>						
Toronto				1,127,824	1,490,519	1,946,569
East York				1,452,267	1,919,299	2,506,542
Ethiopia				191,125	252,588	329,872
North York				14,114	18,654	24,361
Scarborough				67,901	89,737	117,194
York				97,038	128,245	167,483
Metro System <sup>1</sup>				84,256	111,352	145,422
Metro System <sup>2</sup>				26,673	35,251	46,037
	451,439	596,615	779,159	1,605,157	2,121,357	2,770,423
	759,374	1,003,580	1,310,643	1,933,164	2,554,847	3,336,546

<sup>1</sup>This refers to educational expenditures from own source revenue. This does not include the expenditure out of provincial grants for education.

<sup>2</sup>This refers to total educational expenditures, including the provincial grants for education.

Appendix K  
Revenues by Source and Municipality 1968-1974

1968	Toronto	East York	Etobicoke	North York	Scarborough	York	Metro Alone	Metro System
Households	233,812	36,373	75,911	118,276	77,155	46,493	588,020	588,020
Taxation <sup>1</sup> - total (000)	\$217,352	\$ 21,875	\$ 73,680	\$100,122	\$ 57,906	\$ 27,441	\$359,745	\$498,376
- per household	929.60	601.41	970.61	846.51	750.52	590.22	611.79	847.55
- % of total	90.01	90.89	91.71	89.72	90.03	92.64	59.79	82.83
Grants <sup>2</sup> - total (000)	3,323	283	1,620	3,991	1,627	697	41,035	52,576
- per household	14.21	7.78	21.34	33.74	21.09	14.99	69.79	89.41
- % of total	1.38	1.18	2.02	3.58	2.53	2.35	6.98	8.74
Grants-in-lieu of taxes - total (000)	9,768	228	2,184	2,494	2,401	233	nil	17,308
- per household	41.78	6.27	28.77	21.09	31.12	5.01	-	29.43
- % of total	4.04	.95	2.72	2.23	3.73	.50	-	2.88
Other Revenue - total (000)	11,041	1,682	2,849	4,983	2,387	1,250	9,263	33,455
- per household	47.22	46.24	37.53	42.13	30.94	26.89	15.75	56.89
- % of total	4.57	6.99	3.55	4.47	3.71	4.22	1.54	5.56
Total Revenue (000)	\$241,484	\$ 24,067	\$ 80,336	\$111,589	\$ 64,321	\$ 29,621	\$410,043	\$601,715
- per household	1,032.81	680.86	1,083.65	970.81	859.96	659.97	673.50	1,023.29
1969								
Households	231,082	36,348	77,784	126,384	79,257	46,864	597,719	597,719
Taxation - total (000)	\$226,913	\$ 23,325	\$ 78,678	\$110,350	\$ 63,939	\$ 28,105	\$391,592	\$531,310
- per household	981.96	641.71	1,011.49	873.13	806.73	599.71	655.14	888.90
- % of total	88.75	89.74	91.52	89.29	88.86	90.24	86.61	80.95
Grants - total (000)	3,293	257	1,803	4,106	1,832	691	47,143	59,125
- per household	14.25	7.07	23.18	32.49	23.11	14.74	78.87	98.92
- % of total	1.29	.99	2.10	3.32	2.53	2.22	10.43	9.01
Grants-in-lieu of taxes - total (000)	10,722	234	2,377	2,899	3,000	325	nil	19,557
- per household	46.40	6.44	30.56	22.94	37.85	6.93	-	32.72
- % of total	4.19	.90	2.76	2.35	4.17	1.04	-	2.98



	Toronto	East York	Etobicoke	North York	Scarborough	York	Metro alone	Metro System
Other Revenue								
- total (000)	14,755	2,175	3,115	6,235	3,183	2,022	13,375	46,356
- per household	63.85	59.84	40.05	49.33	40.16	43.15	22.38	77.55
- % of total	5.77	8.37	3.62	5.04	4.42	6.49	2.96	7.06
Total Revenue (000)	\$255,684	\$ 25,991	\$85,972	\$123,591	\$ 71,954	\$ 31,143	\$452,110	\$656,348
- per household	1,128.35	734.26	1,130.07	1,003.48	933.46	687.22	732.95	1,098.09
<u>1970</u>								
Household								
Taxation	243,859	39,035	83,562	143,995	90,188	48,380	649,019	649,019
- total (000)	\$253,818	\$ 26,267	\$91,658	\$132,096	\$ 75,110	\$ 32,313	\$453,490	\$611,262
- per household	1,040.84	672.91	1,096.89	917.37	832.82	667.90	698.73	941.82
- % of total	88.89	91.97	91.53	91.19	88.67	92.19	86.10	81.13
Grants	4,809	339	2,038	3,355	2,146	983	59,506	73,102
- total (000)	19.72	8.68	24.39	23.30	23.79	20.32	91.69	112.63
- per household	1.68	1.19	2.04	2.32	2.38	2.80	11.30	9.70
- % of total								
Grants-in-lieu of taxes	11,831	265	2,732	2,714	3,788	260	nil	21,590
- total (000)	48.52	6.79	32.69	18.85	42.00	5.37	-	33.27
- per household	4.14	.93	2.73	1.87	4.47	.74	-	2.87
- % of total								
Other Revenue	14,467	1,689	3,713	6,495	3,473	1,494	13,692	46,390
- total (000)	59.33	43.27	44.43	45.11	38.51	30.88	21.10	71.48
- per household	5.07	5.91	3.71	4.48	4.10	4.26	2.60	6.16
- % of total								
Total Revenue (000)	\$285,537	\$ 28,559	\$100,141	\$144,854	\$ 84,704	\$ 35,050	\$526,688	\$753,409
- per household	1,189.15	749.51	1,221.48	1,028.42	961.69	740.41	789.92	1,160.84
<u>1971</u>								
Household								
Taxation	246,463	38,489	85,894	150,848	93,197	48,666	663,557	663,557
- total (000)	\$251,942	\$ 25,402	\$ 93,052	\$137,989	\$ 77,882	\$ 32,617	\$448,776	\$618,884
- per household	1,022.23	659.98	1,083.34	914.76	835.67	670.22	676.32	932.68
- % of total	86.67	90.76	90.23	89.78	87.76	90.41	82.71	77.94
Grants	7,374	427	2,540	4,994	2,629	966	77,451	96,381
- total (000)	29.92	11.09	29.57	33.11	28.21	19.85	116.72	145.25
- per household	2.54	1.53	2.46	3.25	2.96	2.68	14.27	12.14
- % of total								

	Toronto	East York	Etobicoke	North York	Scarborough	York	Metro alone	Metro System
Grants-in-lieu of taxes - total (000)	11,475	244	2,672	2,832	4,173	255	nil	21,651
- per household	46.56	6.34	31.11	18.77	44.78	5.24	-	32.63
- % of total	3.95	.87	2.59	1.84	4.70	.71	-	2.73
Other Revenue - total (000)	19,912	1,914	4,861	7,877	4,059	2,236	16,265	57,124
- per household	80.79	49.73	56.59	52.22	43.55	45.95	24.51	86.09
- % of total	6.85	6.84	4.71	5.13	4.57	6.20	3.00	7.19
Total Revenue (000)	\$290,703	\$ 27,988	\$103,124	\$153,692	\$ 88,741	\$ 36,075	\$542,592	\$794,039
- per household	1,203.69	748.50	1,227.05	1,044.12	981.14	767.00	792.21	1,196.64
<u>1972</u>								
Households	249,511	41,505	89,260	160,097	101,962	50,693	693,028	693,028
Taxation - total (000)	\$272,954	\$ 27,446	\$100,381	\$148,474	\$ 85,112	\$ 34,628	\$489,896	\$668,995
- per household	1,093.96	661.27	1,124.59	927.40	834.74	683.09	706.89	965.32
- % of total	87.71	90.60	89.80	89.08	85.55	89.32	82.03	77.64
Grants - total (000)	7,396	458	2,966	5,509	2,494	1,096	91,314	111,233
- per household	29.64	11.03	33.23	34.41	24.46	21.62	131.76	160.50
- % of total	2.38	1.51	2.65	3.31	2.51	2.83	15.29	12.91
Grants-in-lieu of taxes - total (000)	13,117	262	2,805	3,063	5,073	271	nil	24,591
- per household	52.57	6.31	31.43	19.03	49.75	5.35	-	35.48
- % of total	4.21	.86	2.51	1.84	5.10	.70	-	3.55
Other Revenue - total (000)	16,972	2,126	5,627	9,277	6,712	2,766	16,015	55,484
- per household	68.02	51.22	63.04	57.95	65.83	54.56	23.11	80.06
- % of total	5.45	7.02	5.03	5.57	6.75	7.13	2.68	6.44
Total Revenue (000)	\$311,217	\$ 30,292	\$111,780	\$166,668	\$ 99,486	\$ 38,767	\$597,225	\$861,615
- per household	1,275.37	758.22	1,287.60	1,074.19	1,011.27	797.11	828.39	1,243.26
<u>1973</u>								
Households	242,125	42,165	87,905	159,977	107,220	50,158	689,550	689,550
Taxation - total (000)	\$274,038	\$ 27,739	\$102,482	\$154,532	\$ 86,154	\$ 33,464	\$487,238	\$678,409
- per household	1,131.80	657.87	1,165.83	965.96	803.53	667.17	706.60	983.84

	Toronto	East York	Etobicoke	North York	Scarborough	York	Metro alone	Metro System
Taxation - % of total	87.54	91.85	89.70	89.54	82.68	84.88	80.57	76.38
Grants - total (000)	12,608	830	4,603	6,161	6,072	3,570	98,764	132,877
- per household	52.07	19.68	52.36	38.51	56.63	7.12	143.23	192.70
- % of total	4.03	2.75	4.03	3.57	5.83	9.06	16.33	14.96
Grants-in-lieu of taxes - total (000)	15,023	287	3,028	3,668	5,808	302	nil	28,116
- per household	62.05	6.81	34.45	22.93	54.17	6.02	-	40.77
- % of total	4.80	.95	2.65	2.13	5.57	.77	-	3.17
Other Revenue - total (000)	11,371	1,345	4,131	8,229	6,172	2,087	18,767	48,789
- per household	46.96	31.90	46.99	51.44	57.56	41.61	27.22	70.75
- % of total	3.63	4.45	3.62	4.77	5.92	5.29	3.10	5.49
Total Revenue (000)	\$313,041	\$ 30,200	\$114,245	\$172,591	\$104,205	\$39,424	\$604,769	\$888,198
- per household	1,331.61	748.32	1,341.36	1,119.40	1,012.37	824.24	837.69	1,288.08
1974								
Households	256,560	43,998	96,146	177,151	113,968	52,268	740,091	740,091
Taxation - total (000)	\$296,871	\$ 30,462	\$113,682	\$169,453	\$ 96,638	\$ 35,057	\$535,178	\$742,163
- per household	1,157.12	692.35	1,182.39	956.55	847.94	670.72	723.12	1,002.80
- % of total	87.27	91.36	89.97	88.34	81.21	83.56	77.91	73.89
Grants - total (000)	10,093	1,159	4,452	6,327	7,743	3,921	127,077	160,771
- per household	39.34	26.34	46.30	35.72	67.94	75.02	171.70	217.23
- % of total	2.97	3.48	3.52	3.30	6.51	9.35	18.50	16.01
Grants-in-lieu of Taxes - total (000)	18,825	314	3,234	4,940	6,998	303	nil	34,614
- per household	73.37	7.14	33.64	27.89	61.40	5.80	-	46.77
- % of total	5.53	.94	2.56	2.58	5.88	.72	-	3.45
Other Revenue - total (000)	14,401	1,404	4,982	11,106	7,615	2,674	24,674	66,847
- per household	56.13	31.91	51.82	62.69	66.82	51.16	33.34	90.32
- % of total	4.23	4.21	3.92	5.79	6.40	6.37	3.59	6.66
Total Revenue (000)	\$340,189	\$ 33,341	\$126,348	\$191,827	\$118,995	\$ 41,955	\$686,929	\$1,004,397
- per household	1,369.65	796.40	1,361.51	1,130.49	1,093.83	847.25	882.36	1,357.13

<sup>1</sup> Taxation figures for each of the area municipalities include taxes for the lower tier, upper tier and school purposes, i.e. it includes the portion of the Metro levy applied to each of the area municipalities.

<sup>2</sup> The Grant figures do not include the provincial grant for education.

<sup>3</sup> Taxation for Metro alone refers to the Metropolitan Levy on the area municipalities.

Source: Calculated from data available in the annual reports entitled Municipal Financial Information for each of the years 1968 to 1974, Treasury, Economics and Intergovernmental Affairs, Toronto, Ontario.

# Appendix L

## Revenue by Source for the Metro System Including the Provincial Grant for Education 1968-1974

Year	Total Taxes		Grants		Grants-in-lieu		Other Revenue		Total Revenue	
	\$(000)	%	\$(000)	%	\$(000)	%	\$(000)	%	\$(000)	%
1968	498,376	73.4	129,788	19.1	17,308	2.5	33,455	4.9	678,927	100.0
1969	531,310	71.5	145,667	19.6	19,557	2.6	46,356	6.2	742,890	100.0
1970	611,262	73.1	156,389	18.7	21,590	2.6	46,390	5.6	835,631	100.0
1971	618,884	66.2	236,820	25.3	21,651	2.3	57,124	6.1	934,479	100.0
1972	668,995	66.0	264,582	26.1	24,591	2.4	55,484	5.5	1,013,652	100.0
1973	678,409	64.8	291,262	27.8	28,116.	2.7	48,789	4.7	1,046,576	100.0
1974	742,163	63.4	326,456	27.9	34,614	3.0	66,847	5.7	1,170,080	100.0

Source: Calculated from data in annual report entitled Municipal Financial Information, Treasury, Economics and Intergovernmental Affairs, Toronto, Ontario, and Annual Report of the Commissioner of Finance of Metropolitan Toronto for each of the years 1968 to 1974.

Appendix M

Residential and Farm Tax Levies in the Area Municipalities 1968-1974

	1968		1969		1970		1971		1972		1973		1974	
	\$000	P.H.	\$000	P.H.	\$000	P.H.	\$000	P.H.	\$000	P.H.	\$000	P.H.	\$000	P.H.
<b>Toronto</b>														
- L.T.	24,190	103.46	25,836	111.80	25,474	104.46	28,239	114.58	30,855	123.66	30,591	126.34	30,559	119.11
- U.T.	21,258	90.92	20,318	87.93	23,653	96.99	27,290	110.73	31,509	126.28	32,564	134.49	34,241	133.46
- School	44,211	189.09	48,657	208.10	54,156	222.08	48,712	197.64	55,795	223.62	56,705	234.20	58,142	226.62
- Total	89,659	383.47	94,811	405.50	103,283	423.54	104,241	422.95	118,159	473.56	119,860	495.03	122,942	479.19
<b>East York</b>														
- L.T.	3,065	84.27	3,175	87.35	3,350	85.82	3,008	78.15	3,957	95.34	4,367	103.57	4,875	110.80
- U.T.	3,423	94.11	3,531	97.14	4,182	107.13	3,876	100.70	4,791	115.43	5,058	119.96	5,649	128.39
- School	7,500	206.20	8,277	227.72	9,593	245.75	7,211	187.35	9,810	236.36	9,435	223.76	10,408	236.56
- Total	13,988	384.57	14,983	412.21	17,125	438.71	14,095	366.21	18,558	447.13	18,060	428.32	20,932	475.75
<b>Etobicoke</b>														
- L.T.	9,760	128.57	9,741	125.23	11,062	132.38	11,862	138.10	12,270	137.46	13,067	148.65	14,593	151.78
- U.T.	10,156	133.79	10,445	134.28	11,937	142.85	13,423	156.27	14,481	162.23	14,900	169.50	16,086	167.31
- School	21,741	286.40	23,869	306.86	26,952	322.54	24,284	282.72	25,993	291.21	27,265	310.16	28,519	296.62
- Total	41,657	548.76	44,055	566.38	49,951	597.77	49,569	577.10	52,744	590.90	55,232	628.31	59,198	615.71
<b>North York</b>														
- L.T.	13,362	112.97	14,093	111.51	15,551	108.00	19,566	129.71	19,694	123.01	20,265	126.67	21,922	123.75
- U.T.	16,130	136.38	17,181	135.94	20,970	145.63	23,438	155.37	25,349	158.34	27,220	170.15	28,727	162.16
- School	35,497	300.12	40,522	320.63	47,571	330.37	42,662	282.81	45,791	286.02	49,565	309.83	51,840	292.63
- Total	64,989	549.47	71,796	568.08	84,092	583.99	85,666	567.90	90,834	567.37	97,050	606.65	102,489	578.54



	1968		1969		1970		1971		1972		1973		1974	
	\$000	P.H.	\$000	P.H.	\$000	P.H.	\$000	P.H.	\$000	P.H.	\$000	P.H.	\$000	P.H.
<u>Scarborough</u>														
- L.T.	9,563	123.95	10,317	130.17	11,959	132.60	13,480	144.64	15,987	156.79	15,295	142.65	17,244	151.31
- U.T.	8,340	108.09	8,754	110.45	10,606	117.60	11,701	125.55	13,002	127.52	13,597	126.81	14,950	131.18
- School	18,501	239.79	21,012	265.11	25,067	277.94	22,520	241.64	24,960	244.80	25,763	240.28	28,831	252.97
- Total	36,404	471.83	40,083	505.73	47,632	528.14	47,701	511.83	53,949	529.11	54,655	509.75	61,025	535.46
<u>York</u>														
- L.T.	5,133	110.40	4,817	102.79	5,805	119.99	6,811	139.95	7,283	143.67	6,978	139.12	7,000	133.93
- U.T.	3,855	82.92	3,916	83.56	4,301	88.90	4,740	97.40	5,079	100.19	5,073	101.14	5,445	104.17
- School	8,478	182.35	9,221	196.76	13,984	289.05	9,220	189.45	9,812	193.56	9,984	199.05	10,696	204.64
- Total	17,466	375.67	17,954	383.11	24,090	497.93	20,771	426.81	22,174	437.42	22,035	439.31	23,141	442.74

P.H. - per household

L.T. - Lower tier

U.T. - Upper tier

Source: Calculated from data supplied by Treasury, Economics and Intergovernmental Affairs, Toronto, Ontario.

Appendix N

Commercial, Industrial and Business Tax Levies in the Area Municipalities 1968-1974

	1968		1969		1970		1971		1972		1973		1974	
	\$000	P.H.	\$000	P.H.	\$000	P.H.	\$000	P.H.	\$000	P.H.	\$000	P.H.	\$000	P.H.
<u>Toronto</u>														
- L.T.	33,765	144.41	35,288	152.71	38,233	156.78	39,093	158.62	41,052	164.53	40,287	166.39	44,321	172.75
- U.T.	29,673	126.91	27,752	120.10	35,695	146.38	37,780	153.29	41,799	167.52	42,766	176.63	49,536	193.08
- School	61,710	263.93	66,459	287.60	74,029	303.57	67,434	273.61	69,286	277.69	68,333	282.22	77,202	300.91
- Total	125,148	535.25	129,499	560.40	147,957	606.73	144,307	585.51	152,137	609.74	151,386	625.24	171,059	666.74
<u>East York</u>														
- L.T.	1,671	45.94	1,718	47.27	1,840	47.14	2,371	61.60	2,078	50.07	2,073	49.16	2,242	50.96
- U.T.	1,866	51.30	1,911	52.58	2,236	57.28	3,055	79.37	2,744	66.11	2,403	56.99	2,599	59.07
- School	4,089	112.42	4,478	123.20	4,847	124.17	5,684	147.68	3,886	93.63	4,242	100.60	4,533	103.03
- Total	7,626	209.66	8,107	223.04	8,923	228.59	11,110	288.65	8,708	209.81	8,718	206.76	9,374	213.06
<u>Etlolccke</u>														
- L.T.	7,399	97.47	7,562	97.22	9,427	112.81	10,301	119.93	11,356	127.22	11,404	129.73	13,666	142.14
- U.T.	7,699	101.42	8,110	104.26	10,177	121.79	11,656	135.70	13,331	149.35	13,003	147.92	15,060	156.64
- School	16,482	217.12	18,531	238.24	21,721	259.94	21,087	245.50	22,503	252.11	22,483	255.76	25,340	263.56
- Total	31,580	416.01	34,203	439.72	41,325	494.54	43,044	501.13	47,190	528.68	46,890	533.42	54,066	562.33

	1968		1969		1970		1971		1972		1973		1974	
	\$000	P.H.	\$000	P.H.	\$000	P.H.	\$000	P.H.	\$000	P.H.	\$000	P.H.	\$000	P.H.
<u>North York</u>														
- L.T.	6,776	57.29	7,173	56.76	8,755	60.80	11,426	75.75	12,452	77.78	12,088	75.56	14,331	80.90
- U.T.	8,179	69.15	8,744	69.19	11,787	81.86	13,687	90.73	16,014	100.03	16,013	100.10	18,774	105.98
- School	18,000	152.19	20,623	163.18	25,308	175.76	24,914	165.16	27,349	170.83	27,641	172.78	32,083	181.11
- Total	32,955	278.63	36,540	289.12	45,850	318.41	50,027	331.64	55,815	348.62	55,742	348.44	65,188	367.98
<u>Scarborough</u>														
- L.T.	5,442	70.53	5,946	75.02	6,877	76.25	8,300	89.06	9,052	88.78	8,816	82.22	10,198	89.48
- U.T.	4,746	61.51	5,045	63.65	6,106	67.70	7,204	77.30	7,578	74.32	7,841	73.13	8,903	78.12
- School	10,527	136.44	12,110	152.79	13,696	151.86	13,865	148.77	13,765	135.00	14,099	131.50	15,776	138.42
- Total	20,715	268.49	23,101	291.47	26,679	295.82	29,369	315.13	30,395	298.10	30,756	286.85	34,877	306.02
<u>York</u>														
- L.T.	2,859	61.49	2,666	56.89	3,439	71.08	3,839	78.88	4,151	81.89	3,674	73.25	3,668	70.18
- U.T.	2,147	46.18	2,168	46.26	2,549	52.69	2,671	54.88	2,895	57.11	2,670	53.23	2,853	54.58
- School	4,722	101.56	5,104	108.91	2,051	42.39	5,197	106.79	5,287	104.29	4,979	99.27	5,298	101.36
- Total	9,728	209.24	9,938	212.06	8,039	166.16	11,707	240.56	12,333	243.29	11,323	225.75	11,819	226.12

P.H. - per household

L.T. - lower tier

U.T. - upper tier

Source: Calculated from data obtained from Treasury, Economics and Intergovernmental Affairs, Toronto, Ontario.

Appendix O  
Total Grants to Metro Alone and the Area Municipalities 1968 to 1974

	Metro Alone <sup>1</sup>		Toronto		Etobicoke		Scarborough		York		East York		North York		Metro System	
	Total \$000	P.H. \$	Total \$000	P.H. \$	Total \$000	P.H. \$	Total \$000	P.H. \$	Total \$000	P.H. \$	Total \$000	P.H. \$	Total \$000	P.H. \$	Total \$000	P.H. \$
1968																
Grants-in-lieu of taxes	Nil	0	9,768	41.78	2,184	28.77	2,401	31.12	233	5.01	228	6.27	2,494	21.09	17,308	29.43
Unconditional grants	14,011	23.83	15	.06	7	.09	0	0	131	2.82	0	0	112	.95	14,276	24.28
Conditional grants	104,236	177.27	3,308	14.15	1,613	21.25	1,627	21.09	566	12.17	283	7.78	3,879	32.80	115,512	196.44
1969																
Grants-in-lieu of taxes	Nil	0	10,722	46.40	2,377	30.56	3,000	37.85	325	6.93	234	6.44	2,899	22.94	19,557	32.72
Unconditional grants	14,012	23.44	7	.03	0	0	0	0	61	1.30	0	0	0	0	14,080	23.56
Conditional grants	119,673	200.22	3,286	14.22	1,803	23.18	1,832	23.11	630	13.44	257	7.07	4,106	32.49	131,587	220.15
1970																
Grants-in-lieu of taxes	Nil	0	11,831	48.52	2,732	32.69	3,788	42.00	260	5.37	265	6.79	2,714	18.85	21,590	33.27
Unconditional grants	14,012	21.59	0	0	0	0	0	0	71	1.47	0	0	0	0	14,083	21.70
Conditional grants	148,707	229.13	4,809	19.72	2,038	24.39	2,146	23.79	912	18.85	339	8.68	3,355	23.30	142,306	250.08

	Metro Alone		Toronto		Etobicoke		Scarborough		York		East York		North York		Metro System	
	Total \$000	P.H. \$	Total \$000	P.H. \$	Total \$000	P.H. \$	Total \$000	P.H. \$	Total \$000	P.H. \$	Total \$000	P.H. \$	Total \$000	P.H. \$	Total \$000	P.H. \$
1971																
Grants-in-lieu of taxes	Nil	0	11,475	46.56	2,672	31.11	4,173	44.78	255	5.24	244	6.34	2,832	18.77	21,651	32.63
Unconditional grants	17,444	26.29	246	1.00	253	2.95	74	.79	289	5.94	0	0	397	2.63	18,703	28.19
Conditional grants	200,446	302.08	7,128	28.92	2,287	26.63	2,555	27.42	677	13.91	427	11.09	4,597	30.47	218,117	328.71
1972																
Grants-in-lieu of taxes	Nil	0	13,117	52.57	2,805	31.43	5,073	49.75	271	5.35	262	6.31	3,063	19.13	24,591	35.48
Unconditional grants	24,806	35.79	981	3.93	664	7.44	524	5.14	434	8.56	Nil	0	825	5.15	28,234	40.74
Conditional grants	219,857	317.24	6,415	25.71	2,302	25.79	1,970	19.32	662	13.06	458	11.03	4,684	29.26	236,348	341.03
1973																
Grants-in-lieu of taxes	Nil	0	15,023	62.05	3,028	34.45	5,808	54.17	302	6.02	287	6.81	3,668	22.93	28,116	40.77
Unconditional grants	33,608	48.88	6,731	27.80	2,320	26.39	3,610	33.67	2,741	54.65	388	9.20	3,044	19.03	52,529	76.18
Conditional grants	223,441	324.04	5,877	24.27	2,283	25.97	2,462	22.96	829	16.53	442	10.48	3,117	19.48	238,733	346.21
1974																
Grants-in-lieu of taxes	Nil	0	18,825	73.37	3,234	33.64	6,998	61.40	303	5.80	314	7.14	4,940	27.89	34,614	46.77
Unconditional grants	41,384	55.92	4,025	15.69	1,777	18.48	4,484	39.34	3,144	60.15	627	14.25	2,920	16.48	58,360	78.86
Conditional grants	251,378	339.66	6,068	23.65	2,675	27.82	3,259	28.60	777	14.87	532	12.09	3,407	19.23	268,096	362.25

1Conditional grants include the provincial grant for education.

Source: Treasury, Economics and Intergovernmental Affairs, Municipal Financial Information, Toronto, 1968-1974.





BIBLIOGRAPHY



Bibliography

- Aaron, Henry J. Who Pays the Property Tax? Washington: The Brookings Institution, 1975.
- Advisory Commission on Intergovernmental Relations. Federal-State-Local Finances: Significant Features of Fiscal Federalism, Washington: U.S. Government Printing Office, February, 1974.
- \_\_\_\_\_. Background Paper, The Commuter and the Municipal Income Tax. Washington: U.S. Government Printing Office, April, 1970.
- Bank of Canada Review. Ottawa, April, 1976.
- Barnes, A. "Galbraith Poses Return of Double Digit Inflation in U.S.," The Globe and Mail. Saturday, June 12, 1976, p. B12.
- Baumol, W.J. "Macroeconomics of Unbalanced Growth: The Anatomy of Urban Crisis," American Economic Review, LVII, 3 (June, 1967).
- Bird, Richard M. The Growth of Government Spending in Canada. Toronto: Canadian Tax Foundation, 1970.
- Bird, Richard M. and Slack, Enid. "The Incidence of the Property Tax in Canada: A Review of the Literature," in Report of the Tri-Level Task Force on Public Finance, Vol. III, February, 1976.
- \_\_\_\_\_. Residential Property Tax Relief in Ontario. Draft Report prepared for Ontario Economic Council. Toronto: University of Toronto Institute for Policy Analysis, April, 1976.
- Bird, R.M. "The Incidence of the Property Tax: Old Wine in New Bottles?" In Canadian Public Policy, 1976.
- Blum, Walter J. and Harry Kalven. The Uneasy Case for Progressive Taxation. Chicago: The University of Chicago Press, 1953.
- Booth, Amy and Michael Van Dusen. "Loto Candy: Do the Sweet Fruits of Avarice Have a Constitutional Crunch?" In The Financial Post, May 22, 1976.
- Booth, Amy. "Industry dumbfounded by Quebec's Land Levy," In The Financial Post, May 29, 1976.
- Break, George F. Intergovernmental Fiscal Relations in the United States. Washington: The Brookings Institution, 1967.
- \_\_\_\_\_. "Property Taxation: A Reappraisal of Burden, Incidence, Equity and Their Policy Implications." (Unpublished, 1973).
- \_\_\_\_\_. "The Incidence and Economic Effects of Taxation." In Alan Blinder, et al., The Economics of Public Finance, Washington, D.C.: The Brookings Institution, 1974, pp. 119-240.

- Bryan, Nancy. More Taxes and More Traffic. Toronto: Canadian Tax Foundation, September, 1972.
- Bureau of Municipal Research. "Market Value Reassessment: A Study of the Theory, the Practice and the Results." In Civic Affairs. Toronto, Summer 1970.
- Canadian Federation of Mayors and Municipalities. Puppets on a Shoestring: The Effects on Municipal Government of Canada's System of Public Finance. Ottawa, April 28, 1976.
- Canadian Tax Foundation. Local Finance, No. 3, January 1960.
- \_\_\_\_\_. Provincial and Municipal Finances, Toronto, 1975.
- Chief Administrative Officer's Department, Toronto. Influences on Metro's Budgeting Process. Toronto, June 4, 1976.
- Clayton, Francis Alfred. "Distribution of Urban Residential Property Tax Burdens and Expenditure Benefits in Canada." Unpublished Ph.D. dissertation, Queen's University, 1966.
- Department of Municipal Affairs. Summary of Financial Reports of Municipalities. Toronto: The Queen's Printer, 1968-1972.
- Deran, Elizabeth. "Tax Structure in Cities Using the Income Tax," National Tax Journal, Vol. XXI, 1968, pp. 147-152.
- Due, John F. Provincial Sales Taxes. Revised edition. Toronto: Canadian Tax Foundation, 1964.
- Due, John F. and Friendlander. Government Finance, Economics of the Public Sector. Homewood: Richard D. Irwin, Inc., 1973.
- Dupre, S. J., Intergovernmental Finance in Ontario: A Provincial-Local Perspective, Queen's Printer, Toronto, 1967.
- Financial Times of Canada, "Tax Move Can Hurt Provinces," July 12, 1976.
- Gaffney, Mason. "An Agenda for Strengthening the Property Tax." In G. Peterson (ed.), Property Tax Reform. Washington: The Urban Institute, 1973, pp. 65-84.
- Gillespie, W. Irwin. "The Municipal Fiscal Dilemma: An Examination and Analysis of Municipal Financial Problems." In 1973 Conference Report. Toronto: Canadian Tax Foundation, November, 1973, pp. 561-590.
- \_\_\_\_\_. The Incidence of Taxes and Public Expenditures in the Canadian Economy. Studies of the Royal Commission on Taxation, No. 2, Ottawa, 1964.
- \_\_\_\_\_. "The Redistribution of Income in Canada 1969. An Analysis of the Incidence of Taxes and Public Expenditures in the Canadian Economy." Unpublished study, 1975.
- Globe and Mail. "Robarts' report on Metro government due after elections," June 29, 1976.



- Goffman, Irving Jay. The Burden of Canadian Taxation, Allocation of Federal, Provincial and Local Taxes Among Income Classes. Canadian Tax Papers, No. 29. Toronto: Canadian Tax Foundation, 1962.
- Haber, J. H. A. and C.A. Lamont. A Study of Certain Factors Affecting Beer Consumption in the Maritimes, 1957-69. Fredericton, N.B.: The Research and Productivity Council, 1970.
- Hamovitch, William. "Effects of Increases in Sales Tax Rates on Taxable Sales in New York City." Financing Government in New York City. New York University Graduate School of Public Administration, 1966.
- Isaksson, David. "Rationalization of Alcohol Taxation." In The Development of Control Policies for Alcoholic Beverages in Sweden. Ottawa: Brewers' Association of Canada, 1972.
- Jarrett, Goold and Elliot. A Financial Profile of Metropolitan Toronto and Its Constituent Municipalities, 1967-1973. Toronto: The Royal Commission on Metropolitan Toronto, 1975.
- \_\_\_\_\_. Metropolitan Toronto and Its Constituent Municipalities: Financial Data for the Years 1967 to 1975. Toronto: The Royal Commission on Metropolitan Toronto, December 3, 1975.
- Jenson, Jens. Property Taxation in the United States. Chicago: University of Chicago Press, 1931.
- Johnson, James. "Municipal Tax Reform - Alternatives to the Real Property Tax." In Canadian Public Policy, 1976.
- \_\_\_\_\_. The Incidence of Government Revenues and Expenditures. A Study Prepared for the Ontario Committee on Taxation Toronto, Queen's Printer, Toronto, 1967.
- \_\_\_\_\_. "New Tax Sources and Tax Sharing for Canadian Municipalities." Report of Proceedings of the Twenty-Fifth Tax Conference. Toronto: Canadian Tax Foundation, 1974, pp. 591-612.
- \_\_\_\_\_. "Canadian Policies in Regard to the Taxation of Alcoholic Beverages." In Canadian Tax Journal. Toronto: Canadian Tax Foundation, Vol. XXI, No. 6, November-December, 1973.
- \_\_\_\_\_. "The Municipal Quest for Additional Revenues: Implications for Urban Growth and Urban Government in Canada." In Local Government Studies, January, 1975.
- Kafoglis, Milton. "Highway Policy and External Economies." In National Tax Journal, XVI, 1, 1963.
- Kitchen, H. M. "Some Organizational Implications of Providing an Urban Service: The Case of Water." Canadian Public Administration, Summer, 1975, pp. 297-308.
- Kruger, J.P. Memos to the Budget Sub-Committee of Metro regarding i) Fiscal Impact Study-Highland Creek Treatment Plant (stage IV), dated June 17, 1976; ii) Fiscal Impact Summary - Main Sewage Treatment Plant Extension (stage III), dated June 9, 1976; iii) Fiscal Impact Summary, Communications/Dispatch System - Ambulance Services, dated June 18, 1976.

- Ladd, Helen. "The Role of the Property Tax: A Reassessment." In R.A. Musgrave, ed., Broad-Based Taxes: New Options and Sources. Baltimore: Johns Hopkins Press, 1973.
- Laszlo Ecker-Racz, L. It's Your Business: Local and State Finance. New York: National Municipal League, 1976.
- MacDonald, H.I. "Long-Term Perspective for Canada." The Canadian Business Review, Vol. 1, No. 1, 1974.
- Makuch, S. and Jaffary, K. Local Decision-Making and Administration. Toronto: Royal Commission on Metropolitan Toronto, 1977.
- Manitoba. 1975 Manitoba Budget Address, 1975.
- Maslove, Allan. The Pattern of Taxation in Canada. A Study Prepared for the Economic Council of Canada. Ottawa, 1972.
- Maxwell, James A. Financing State and Local Governments. Washington: The Brookings Institution, 1965.
- Metropolitan Toronto. Annual Report of the Commissioner of Finance. Toronto, 1968, 1971, 1974.
- Metropolitan Washington Council of Governments. Metropolitan Fiscal Analysis Part 3: Methods of Financing Areawide Facilities and Services. Washington: U.S. Government Printing Office, January, 1976.
- Mieszkowski, Peter. "The Property Tax: An Excise Tax or a Profits Tax?" In Journal of Public Economics, Vol. 1, April 1972, pp. 73-96.
- \_\_\_\_\_. "On the Theory of Tax Incidence." In Journal of Political Economy, Vol. 75, June 1967, pp. 250-262.
- Ministry of Education. Report of the Ministerial Commission on the Organization and Financing of the Public and Secondary School Systems in Metropolitan Toronto. Toronto, 1974.
- Ministry of Industry, Trade and Commerce. Local Government Employment. Catalogue 72-009, Vol. 2, no. 1 to Vol. 9, no. 4. Ottawa: Information Canada, 1968-75.
- Ministry of Treasury, Economics and Intergovernmental Affairs, Taxation and Fiscal Policy Branch. Analysis of Income and Property Taxes in Guelph. A Staff Paper, Toronto, 1972.
- \_\_\_\_\_. Municipal Financial Information. Toronto, 1968-1974.
- \_\_\_\_\_. The Classification of Expenditure: A Guide for Municipal Treasurers and Auditors. Toronto, 1974.
- \_\_\_\_\_. Municipal Finance Branch. Regional Government in Perspective: A Financial Review. Ontario Tax Study 11, Toronto, 1976.
- Musgrave, Richard A. and Musgrave, Peggy B. Public Finance in Theory and Practice. New York: McGraw-Hill Book Co., 1973.

Musgrave, Richard. "Is a Property Tax on Housing Regressive?" American Economic Review, Papers and Proceedings, 64 May 1974, pp. 222-229.

Musgrave, Richard, Cane, Karl and Leonard, Herman. "The Distribution of Fiscal Burdens and Benefits." Public Finance Quarterly, 2, July 1974, pp. 259-312.

Netzer, Dick. Economics of the Property Tax. Washington: The Brookings Institution, 1966.

New Brunswick. Report of the Task Force on Municipal Structure and Financing, 1973.

Newfoundland and Labrador. Report of the Royal Commission on Taxation and Revenue of the City of St. John's, 1972.

Niskanen, W.A. The Demand for Alcoholic Beverages: An Experiment in Econometric Method. Rand Corporation Mimeo, 1962.

Oakland, William H. Using the Property Tax to Pay for City Government: A Case Study of Baltimore.

Ontario Budget 1976. Budget Paper E. Reform of Property Taxation in Ontario.

Paradis, Paul. "The Budgetary Process in the Municipality of Metropolitan Toronto." Section A of a Brief Submitted by D.C. Hefferon to the Royal Commission on Metropolitan Toronto, mimeograph, 1975.

Pechman, Joseph A. Federal Tax Policy. Washington: The Brookings Institution, 1966.

Pechman, Joseph and Okner, Benjamin. Who Bears the Tax Burden? Washington, D.C.: The Brookings Institution, 1974.

Peterson, George E., ed. Property Tax Reform. Washington: The Urban Institute, 1973.

Plunkett, T.J. Urban Canada and its Government: A Study of Municipal Organization. Toronto: MacMillan, 1968.

Poole, Kenyon E. The Retail Sales Tax: An Economic Study. Ottawa: The Queens' Printer, 1964.

Popham, R.E. and W. Schmidt and J. de Lint. "The Prevention of Alcoholism: Epidemiological Studies of the Effects of Government Control Measures." In Law and Drinking Behaviour. J. A. Ewing and B.A. Rouse, eds., Chapel Hill, to be published.

Public Accounts of Ontario, 1973-74 and 1974-75, Vol. I, Financial Statements. Toronto: The Queen's Printer.

Reeve, A.W. "Local Government Revenue Sources in Canada." Governmental Finance, May 1973.

Report of the Alcoholic Beverage Study Committee. Beer, Wine, and Spirits: Beverage Differences and Public Policy in Canada. Ottawa: Brewers' Association of Canada, 1973.

Report of the Ontario Committee on Taxation, Vol. III, Toronto: Queen's Printer, 1967.

Report of the Royal Commission on Taxation and Revenue of the City of St. John's. St. John's, Newfoundland, 1972.

Report of the Royal Commission on Transportation, Province of Ontario. Toronto.: King's Printer, 1939.

Report of the Tri-Level Task Force on Public Finance. Vol. II and Vol. III, February, 1976.

Robinson, A.J. Economic Evaluation of Municipal Expenditures: PPB. Toronto: Canadian Tax Foundation, 1971.

The Royal Commission on Metropolitan Toronto. Update. Toronto, December, 1975.

Schryer, Edward R. 1976 Manitoba Budget Address, April 13, 1976.

Seligman, Edwin. Essays in Taxation. Macmillan, 1895, Chap. II.

Silver, Sheldon. "The Feasibility of a Municipal Income Tax." Canadian Tax Journal, Vol. XVI, No. 5, September-October, 1968.

Sinclair, Clayton. Cities Eye Income Tax Revenues to Ease Deficits. Financial Times of Canada, April 19, 1976.

Singer, Neil. Public Microeconomics: An Introduction to Government Finance, Second edition. Boston: Little, Brown and Co., 1976.

Statistics Canada. Prices and Price Indexes, Vol. 53, No. 7, Ottawa, 1975.

\_\_\_\_\_. Local Government Finance. Cat. No. 68-203 and 68-204, 1968 to 1974.

Steiss, A.W. Local Government Finance. Toronto: Lexington Books, 1975.

Sternlieb, George and Burchell, Robert. "Residential Tax Delinquency: A Forerunner to Residential Abandonment." Real Estate Law Journal. Spring 1973.

Tax Foundation. Nontax Revenues. New York: Tax Foundation, Inc., 1968.

Thurow, Lester. "The Economics of Public Finance." National Tax Journal 28 (June 1975), pp. 185-194.

Toronto Star. "Metro building boom is a bust in housing." Saturday, January 31, 1976, p. F4.

\_\_\_\_\_. "Why our hotels are crying the blues." Saturday, March 20, 1976, pp. 1 and A12.

\_\_\_\_\_. "Airport Strip rides out the hotel slump" and "Hoteliers clamor for convention hall." Monday, March 22, 1976, p. C3.

Toronto Star. "Empty hotels: A look at the biggest losers." Tuesday,  
March 23, 1976.

\_\_\_\_\_. "Cash transfers to provinces too expensive, Trudeau says."  
June 16, 1976.

White, Melvin I. "Economic Evaluation of the Municipal Income Tax."  
Proceedings of the Academy of Political Science, Vol. XXVIII, No. 4,  
January 1968.













